

# AGENDA AUDIT COMMITTEE MEETING OF THE BOARD OF DIRECTORS INLAND EMPIRE UTILITIES AGENCY\*

MONDAY, JUNE 7, 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 ORDERS N-25-20 AND N-29-20 ISSUED BY GOVERNOR GAVIN NEWSOM IN MARCH 2020 AND IN AN EFFORT TO PROTECT PUBLIC HEALTH AND PREVENT THE SPREAD OF COVID-19, THERE WILL BE NO PUBLIC LOCATION AVAILABLE FOR IN-PERSON ATTENDANCE.

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 <a href="mailto:lmantilla@ieua.org">lmantilla@ieua.org</a> no later than 24 hours prior to the scheduled meeting time. Comments will 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 Board Secretary/Office Manager no later than 24 hours prior to the scheduled meeting time or address the Board during the public comments section of the meeting. Comments will be limited to three minutes per speaker. Thank you.

#### ADDITIONS TO THE AGENDA

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

#### 1. ACTION ITEMS

#### A. MINUTES

Approve Minutes of the March 8, 2021 Audit Committee meeting.

#### B. FY 2021/22 ANNUAL AUDIT PLAN

Staff recommends that the Committee/Board:

- 1. Approve the FY 2021/22 Annual Audit Plan; and
- 2. Direct the Manager of Internal Audit to implement the FY 2021/22 Annual Audit Plan.

#### 2. <u>INFORMATION ITEMS</u>

- A. <u>FY 2020/21 FINANCIAL AUDIT ENGAGEMENT COMMUNICATIONS</u> (WRITTEN/POWERPOINT)
- B. <u>AGENCY VEHICLE OPERATIONAL FOLLOW UP AUDIT REVIEW OF VEHICLE INVENTORY PROCEDURES (WRITTEN/POWERPOINT)</u>
- C. CONTRACTS AND PROCUREMENT FOLLOW-UP REVIEW OF RECOMMENDATIONS RELATED TO THE MASTER TRADE CONTRACTS AUDIT REPORT (WRITTEN/POWERPOINT)
- D. REPORT OF OPEN AUDIT RECOMMENDATIONS (WRITTEN)
- E. <u>INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR JUNE 2021 (WRITTEN)</u>
- 3. AUDIT COMMITTEE ADVISOR COMMENTS
- 4. <u>COMMITTEE MEMBER COMMENTS</u>
- 5. <u>COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS</u>

#### **ADJOURN**

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

Audit Committee June 7, 2021 Page 3

#### **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. to the IEUA Website at <a href="https://www.ieua.org">www.ieua.org</a> and outside the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, June 3, 2021.

Laura Mantilla

# ACTION ITEM

**1A** 



# MINUTES AUDIT COMMITTEE MEETING INLAND EMPIRE UTILITIES AGENCY\* AGENCY HEADQUARTERS, CHINO, CA MONDAY, MARCH 8, 2021 9:00 A.M.

#### COMMITTEE MEMBERS PRESENT via Video/Teleconference

Steven J. Elie, Chair Paul Hofer

#### STAFF PRESENT

Shivaji Deshmukh, General Manager Laura Mantilla, Executive Assistant Daniel Solorzano, Technology Specialist I

#### STAFF PRESENT via Video/Teleconference

Kathy Besser, Executive Manager of External Affairs & Policy Development/AGM 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 Sapna Nangia, Senior Internal Auditor Teresa Velarde, Manager of Internal Audit

#### **OTHERS PRESENT via Video/Teleconference**

Travis Hickey, Audit Committee Advisor

Committee Chair Steven J. Elie called the meeting to order at 9:01 a.m. He gave the public the opportunity to comment and provided instructions for unmuting the conference line.

There were no public comments received or additions to the agenda.

#### 1A - 1B. ACTION ITEMS

The Committee:

- ◆ Approved the minutes of the December 7, 2020 Audit Committee meeting.
- Recommended that the Board award a contract for the annual financial audit and single audit services for the Inland Empire Utilities Agency to CliftonLarsonAllen, LLP, for a 3year term and two single year options to extend beginning in Fiscal Year 2021/22, for a not-to-exceed amount of \$115,115; and authorize the General Manager or his designee to execute the contracts; as a Consent Calendar item on the March 17, 2021 Board meeting agenda.

Audit Committee March 8, 2021 Page 2

#### 2A – 2B. INFORMATION ITEMS

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

- ♦ The Audit Function Report: Chair Elie recommended the Audit Function Report be added to IEUA's website to increase transparency about the audit function to the public.
- Internal Audit Department Quarterly Status Report for March 2021

#### 3. AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey commended Ms. Teresa Velarde and staff for the Request for Proposal process and concurred with the firm selected for the annual financial audit and single audit.

Mr. Hickey stated that a report on occupational fraud, which is released every two years, looks at how fraud is detected. The internal auditors and the fraud hotline have proven to serve as the most effective measures to minimize and detect fraud.

Mr. Hickey reported that the California Society of Municipal Finance Officers held its annual conference virtually. It was a very good conference attended by several Agency staff members.

#### **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.

#### **ADJOURNMENT**

With no further business, Committee Chair Elie adjourned the meeting at 9:40 a.m.

Respectfully submitted,

Laura Mantilla Executive Assistant

\*A Municipal Water District

APPROVED: JUNE 7, 2021

# ACTION ITEM

**1B** 



**Date:** June 16, 2021

From: Teresa Velarde, Manager of Internal Audit

Teresa Octava.

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

**Subject:** FY 2021/22 Annual Audit Plan

**To:** The Honorable Board of Directors

#### **Executive Summary:**

The Board-approved Audit Committee Charter requires the Audit Committee to approve a flexible Annual Audit Plan of proposed audit projects, and recommend the plan and periodic updates to the Board of Directors for review and approval. The flexible Annual Audit Plan of proposed audit projects, intends to evaluate processes and business activities depending on the assessed risk, level of priority, and/or specific requests.

The Internal Audit Department Charter and the Institute of Internal Auditors (IIA) audit standards require that periodic risk assessments be performed to ensure information captured is relevant, timely, and aligned with the Agency's changing environment, goals, and objectives. IA performs the required risk assessment, prepares the Annual Audit Plan, and submits quarterly status reports and amendments, as required. The audit projects proposed for FY 2021/22 include: Accounts Payable Operational and Internal Control Audit, Electronic Payment Transactions and Disbursements Audit, Information Systems Physical Inventory and Internal Controls Audit and follow-up reviews to evaluate the implementation status of prior audit recommendations provided. Additionally, Internal Audit is available to assist with questions related to Agency policies and processes, compliance and efficiencies.

#### **Staff's Recommendation:**

- 1. Approve the FY 2021/22 Annual Audit Plan; and
- 2. Direct the Manager of Internal Audit to implement the FY 2021/22 Annual Audit Plan.

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

Fiscal Impact (explain if not budgeted):

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

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

#### **Prior Board Action:**

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters. Both Charters require the Manager of IA to complete and present the Annual Audit Plan.

#### **Environmental Determination:**

Not Applicable

#### **Business Goal:**

The Annual Audit Plan is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by proposing for completion audits that evaluate and promote a strong internal control and ethical environment, evaluate efficiencies and effectiveness of processes and operations and make recommendations to assist management in achieving compliance with required policies to achieve organizational goals and objectives.

#### **Attachments:**

Attachment 1 - FY 2021/22 Internal Audit Department Annual Audit Plan

Attachment 2 - PowerPoint

Board-Rec No.: 21130



Fiscal Year 2021-2022

# Internal Audit Department Annual Audit Plan

Submitted by: Teresa V. Velarde Manager of Internal Audit Department June 7, 2021 The Annual Audit Plan is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by proposing for completion audits that evaluate and promote a strong internal control and ethical environment, evaluate efficiencies and effectiveness of processes and operations, and make recommendations to assist management in achieving compliance with required policies to achieve organizational goals and objectives.

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Internal Audit Department Annual Audit Plan For Fiscal Year 2021/22 Page 3 of 13

#### Purpose of the Internal Audit Department

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

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

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

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

#### Mission Statement

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

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

#### Internal Audit Department Values

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

#### <u>Independence</u>

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

#### **Integrity**

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

#### <u>Professionalism</u>

The Internal Audit Department will always perform its work with professionalism.

#### <u>Collaboration</u>

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

Internal Audit Department Annual Audit Plan For Fiscal Year 2021/22 Page 5 of 13

#### Purpose of the Annual Audit Plan

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

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

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

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

Internal Audit Department Annual Audit Plan For Fiscal Year 2021/22 Page 6 of 13

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

#### Annual Audit Plan Methodology

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

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

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

#### Fiscal Year 2021/22 Annual Audit Plan

#### **Accounts Payable – Operational and Internal Control Audit**

This operational audit will review various areas of the Accounts Payable activities, specifically, to evaluate:

Compliance with Agency policies and department operating procedures

Internal controls in place with regards to accounts payable activities

Payments are issued timely and only for properly procured and approved expenditures

Timeliness and accuracy of invoice receipt, approval, and payment processes

Evaluate controls related to the Vendor Master List

Evaluate implementation status of outstanding recommendations from prior audits

#### **Electronic Payment Transactions and Disbursements Audit**

Select specific vendors or types of transactions where electronic payments were issued, and evaluate:

Financial transactions have adequate supporting documentation for the disbursement Compliance with policies and procedures

Payments are accurately entered in the accounting system and paid timely Internal controls for electronic disbursements made.

#### **Information Systems Physical Inventory and Internal Controls Audit**

Select specific vendors or types of payment transactions to evaluate the internal controls. To evaluate:

Financial transactions and supporting documents Compliance with policies and procedures

#### Follow-up Reviews to evaluate the status of outstanding recommendations

As required by the Charters and audit standards, IA will follow up on the status of outstanding recommendations to determine if corrective actions or alternate controls were implemented. As of June 2021, there are 105 outstanding recommendations: 31 related to the renegotiation of the Regional Contract which should be implemented with the finalization of the Contract. 21 relate to Agency Policy updates, HR is currently working with an outside consultant to evaluate all Agency Policies, HR anticipates the consultant will provide recommendations to update policies. IA will defer the evaluation of these recommendations until all updates have been incorporated. 9 recommendations relate to audits completed within the previous 12 months and need additional time for full implementation. In summary, there are 44 recommendations eligible for follow up evaluation. See details on Page 9.

#### On-Going Audit Projects

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

#### **Outstanding Recommendations**

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

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2022
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2022
Master Trade Contracts	September 1, 2016	5	FY 2022
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2022
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2023
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2023
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2023
Payroll Operations Audit	August 30, 2017	5	FY 2023
Procurement Card Audit	March 1, 2018	7	FY 2023
Wire Transfers Audit	March 1, 2018	4	FY 2023
Inter-fund Transactions Audit	August 30, 2018	1	FY 2024
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2024
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
Regional Contract Review –Final Audit Report (planned for implementation with the renegotiation of the Regional Contract)	December 16, 2015	31	Pending – Renegotiation of the Regional Contract
Total Outstanding Audit Recom	mendations	105	

<sup>\*</sup>See the Report of Open Recommendations under separate cover.

Only 44 of the 105 recommendations noted above are eligible for follow up evaluation as explained below. As of June 2021, 105 recommendations remain outstanding:

- o 31 relate to the renegotiation of the Regional Contract,
- 21 relate to upcoming updates to Agency policies which is being facilitated by an outside consultant working with Human Resources Department,
- 9 recommendations relate to audits completed within the previous 12 months and need additional time for full implementation by the departments.
- o 44 recommendations are eligible for follow up evaluation

#### Long Range Audit Planning - Additional Audit Areas

Internal Audit has identified additional audit areas. This list has been compiled as a preliminary list of future and potential audit projects where audit resources and efforts can be focused. This is not a complete list. If the risk/priority in any of the identified auditable areas increases, or a special request comes from the Audit Committee, IA would perform the required audit work.

#### **Data Analytics**

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

#### **Accounts Payable Audit – Review of Agency Credit Cards**

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

- Review financial transactions and supporting documentation
- Evaluate internal controls related to accounts payable functions
- Compliance with Agency policies and department procedures

#### **Cybersecurity**

Cybersecurity risks are on the rise. An audit in this area would evaluate internal controls and control safeguards in place to protect the Agency and minimize/eliminate risks to Agency information, employee information, assets and other vulnerabilities.

#### **Large/Heavy Equipment Inventory and Accountability**

The Agency has approximately \$3 million in heavy-duty equipment which includes large operations/maintenance vehicles (machinery/equipment). An inventory and accountability audit has not been performed of these assets. The audit will review documentation, accounting records and physically verify assets.

#### Fleetistic Use, Vehicle Maintenance and Maintenance Vendors Controls

Evaluate the use of Fleetistics to evaluate and that Fleetistic is used as intended and the goals for the program are achieved. To evaluate how fleet vehicle maintenance is detected by Fleetistics or other method, how maintenance is planned, scheduled, approved and completed timely or as needed. Lastly, to evaluate the maintenance vendors utilized to ensure that work is issued according to the contract and/or follow Agency approved procurement policies and all internal controls are in place.

Internal Audit Department Annual Audit Plan For Fiscal Year 2021/22 Page 11 of 13

#### **Capital Projects**

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

#### **Various or Other Agreements**

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

#### **Asset Management**

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

#### **Operations**

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

#### **Payroll Operations Audit**

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

#### **Personal Computer Loan Program and Policy Compliance**

Review Agency policies and internal controls as they relate to the employee personal computer loan program and reimbursements to ensure adequate controls and that policy requirements are followed.

#### **Audit Planning Strategy**

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

The IIA IPPF defines Risk as follows:

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

The risk assessment is a general assessment performed using best practice guidance, professional judgment and consideration for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies. In performing the Risk Assessment for this FY 2020/21 Annual Audit Plan, the following were considered:

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

Internal Audit Department Annual Audit Plan For Fiscal Year 2021/22 Page 13 of 13

#### Audit Universe

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

#### Quality Assurance and Improvement Program

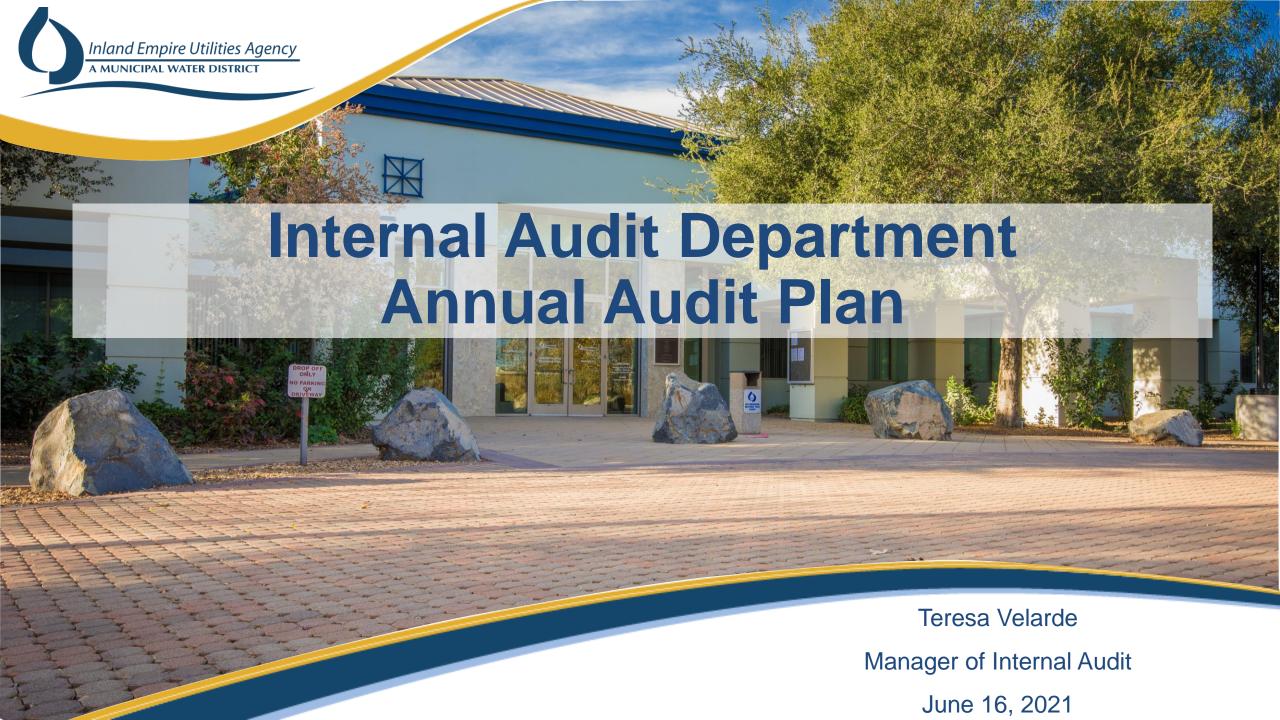
The Institute of Internal Auditing (IIA), International Professional Practices Framework (IPPF) defines a Quality Assurance and Improvement Program: "A quality assurance and improvement Program is designed to enable an evaluation of internal audit activity's conformance with the Definition of Internal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

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

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

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

The Annual Audit Plan is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by proposing for completion audits that evaluate and promote a strong internal control and ethical environment, evaluate efficiencies and effectiveness of processes and operations, and make recommendations to assist management in achieving compliance with required policies to achieve organizational goals and objectives.



## Fiscal Year 2021/22 Annual Audit Plan Proposed Projects



#### **Accounts Payable – Operational and Internal Control Audit**

This operational audit will review various areas of the Accounts Payable activities, specifically, to evaluate:

Compliance with Agency policies and department operating procedures

Internal controls in place with regards to accounts payable activities

Payments are issued timely and only for properly procured and approved expenditures

Timeliness and accuracy of invoice receipt, approval, and payment processes

Evaluate controls related to the Vendor Master List

Evaluate implementation status of outstanding recommendations from prior audits

#### **Electronic Payment Transactions and Disbursements Audit**

Select specific vendors or types of transactions where electronic payments were issued, and evaluate:

Financial transactions have adequate supporting documentation for the disbursement Compliance with policies and procedures

Payments are accurately entered in the accounting system and paid timely Internal controls for electronic disbursements made.

#### **Information Systems Physical Inventory and Internal Controls Audit**

Select specific vendors or types of payment transactions to evaluate the internal controls. To evaluate:

Financial transactions and supporting documents Compliance with policies and procedures

## Fiscal Year 2021/22 Annual Audit Plan Outstanding Audit Recommendations



Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2022
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Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2022
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2023
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2023
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2023
Payroll Operations Audit	August 30, 2017	5	FY 2023
Procurement Card Audit	March 1, 2018	7	FY 2023
Wire Transfers Audit	March 1, 2018	4	FY 2023
Inter-fund Transactions Audit	August 30, 2018	1	FY 2024
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2024
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
Regional Contract Review – Final Audit Report	December 16, 2015	31	Pending – Renegotiation of the Regional Contract
Total Outstanding Recommen	dations	105	

## Fiscal Year 2021/22 Annual Audit Plan On-Going Projects



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

## Fiscal Year 2021/22 Annual Audit Plan Additional Audit Areas



#### **Data Analytics**

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

#### Accounts Payable Audit - Review of Agency Credit Cards

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

- · Review financial transactions and supporting documentation
- Evaluate internal controls related to accounts payable functions
- Compliance with Agency policies and department procedures

#### Cybersecurity

Cybersecurity risks are on the rise. An audit in this area would evaluate internal controls and control safeguards in place to protect the Agency and minimize/eliminate risks to Agency information, employee information, assets and other vulnerabilities.

#### Large/Heavy Equipment Inventory and Accountability

The Agency has approximately \$3 million in heavy-duty equipment which includes large operations/maintenance vehicles (machinery/equipment). An inventory and accountability audit has not been performed of these assets. The audit will review documentation, accounting records and physically verify assets.

#### Fleetistic Use, Vehicle Maintenance and Maintenance Vendors Controls

Evaluate the use of Fleetistics to evaluate and that Fleetistic is used as intended and the goals for the program are achieved. To evaluate how fleet vehicle maintenance is detected by Fleetistics or other method, how maintenance is planned, scheduled, approved and completed timely or as needed. Lastly, to evaluate the maintenance vendors utilized to ensure that work is issued according to the contract and/or follow Agency approved procurement policies and all internal controls are in place.

# Fiscal Year 2021/22 Annual Audit Plan

Additional Audit Areas

#### Capital Projects

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

#### Various or Other Agreements

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

#### Asset Management

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

#### **Operations**

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

#### **Payroll Operations Audit**

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

#### Personal Computer Loan Program and Policy Compliance

Review Agency policies and internal controls as they relate to the employee personal computer loan program and reimbursements to ensure adequate controls and that policy requirements are followed.



### Fiscal Year 2021/22 Annual Audit Plan



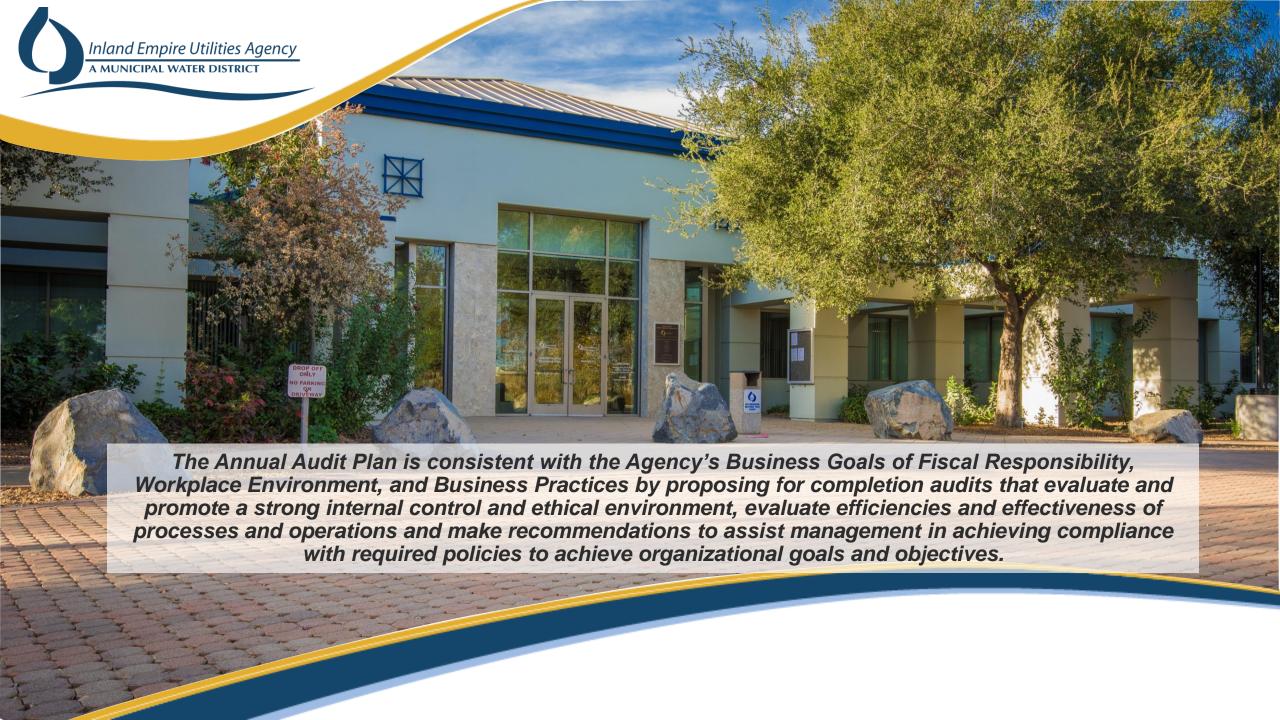
#### Staff recommends the Board:

- 1. Approve the FY 2021/22 Annual Audit Plan; and
- 2. Direct the Manager of Internal Audit to implement the FY 2021/22 Annual Audit Plan.

#### Mission Statement

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

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



# INFORMATION ITEM 2A



Date: June 16, 2021

To: The Honorable Board of Directors From: Teresa Velarde, Manager of Internal Audit

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: FY 2020/21 Financial Audit - Engagement Communications

#### **Executive Summary:**

The Board adopted Fiscal Ordinance and other regulatory requirements state that the Agency must undergo a financial audit by an independent certified public accountant. The auditors evaluate whether the Agency's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB).

On March 17, 2021, the Board approved a contract with CliftonLarsonAllen LLP (CLA) to provide Annual Financial and Single Audit Services for the Inland Empire Utilities Agency for the three fiscal years ending June 30, 2021, 2022 and 2023 with options for an additional two fiscal years.

Attached, is the executed Engagement Letter which describes the terms and objectives of the financial audit services with CLA. During the Audit Committee meeting, Mr. Nitin Patel, CPA, Principal with CLA will provide a presentation about the audit scope and approach, as well as the required communications. Additional one-on-one meetings must be scheduled separately to discuss the scope and approach of the audit.

#### **Staff's Recommendation:**

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

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

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

#### **Prior Board Action:**

On March 17, 2021, the Board approved Contract Numbers 4600003005, for a not-to-exceed amount of \$115,115 with CliftonLarsonAllen LLP, to provide Annual Financial and Single Audit Services for the Inland Empire Utilities Agency for the three fiscal years ending June 30, 2021, 2022 and 2023 with options for an additional two fiscal years.

#### **Environmental Determination:**

Not Applicable

#### **Business Goal:**

The Annual Financial Statement and Single Audit of the Agency is a requirement per the Agency's approved Fiscal Ordinance and other regulatory requirements and is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by providing transparent information, ensuring that the financial audit evaluate and promote a strong fiscal control environment and assist the Board in fulfilling their oversight responsibilities over internal controls and financial reporting.

#### **Attachments:**

Attachment 1 - Engagement Letter - CLA

Attachment 2 - PowerPoint

Board-Rec No.: 21131



CliftonLarsonAllen LLP 2875 Michelle Drive Suite 300 Irvine, CA 92606 Phone (714)-978-1300 | fax (714)-978-7893 CLAconnect.com

April 29, 2021

Mr. Shivaji Deshmukh General Manager Inland Empire Utilities Agency 6075 Kimball Avenue Chino, CA 91708

We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the audit and nonaudit services CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") will provide for Inland Empire Utilities Agency and Chino Basin Regional Financing Authority ("you," "your," or "the entity") for the year ending June 30, 2021.

Nitin Patel, CPA, is responsible for the performance of the audit engagement.

#### **Audit services**

We will audit the financial statements of each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements of the Inland Empire Utilities Agency, as of and for the year ending June 30, 2021, and the related notes to the financial statements.

The Governmental Accounting Standards Board (GASB) provides for certain required supplementary information (RSI) to accompany the entity's basic financial statements. The RSI will be subjected to certain limited procedures, but will not be audited.

- 1. Management's discussion and analysis.
- 2. GASB-required supplementary pension and OPEB schedules.

We will also evaluate and report on the presentation of the following supplementary information other than RSI accompanying the financial statements in relation to the financial statements as a whole:

- 1. Schedule of expenditures of federal awards.
- 2. Combining and individual fund financial statements and schedules.

The following information other than RSI accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements and our auditors' report will not provide an opinion or any assurance on that information:

- 1. Introductory section.
- 2. Statistical section.



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#### **Nonaudit services**

We will also provide the following nonaudit services:

- Preparation of a trial balance.
- Preparation of adjusting journal entries.
- Preparation of your financial statements, schedule of expenditures of federal awards, and related notes.
- Prepare the Data Collection Form.

#### **Audit objectives**

The objective of our audit is the expression of opinions about whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS); the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our audit will include tests of your accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express opinions and render the required reports. We will apply certain limited procedures to the RSI in accordance with U.S. GAAS. However, we will not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We will also perform procedures to enable us to express an opinion on whether the supplementary information (as identified above) other than RSI accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole.

The objectives of our audit also include:

- Reporting on internal control over financial reporting and compliance with the provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Reporting on internal control over compliance related to major programs and expressing an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Uniform Guidance.

The Government Auditing Standards report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will

April 29, 202 Inland Empire Utilities Agency Page 3

include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

We will issue written reports upon completion of our audit of your financial statements and compliance with requirements applicable to major programs. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If our opinions on the financial statements or the single audit compliance opinion are other than unmodified, we will discuss the reasons with you in advance. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements or material noncompliance caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming opinions on the financial statements or an opinion on compliance, we retain the right to take any course of action permitted by professional standards, including declining to express opinions or issue reports, or withdrawing from the engagement.

#### Auditor responsibilities, procedures, and limitations

We will conduct our audit in accordance with U.S. GAAS and the standards for financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error. An audit involves performing procedures to obtain sufficient appropriate audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

There is an unavoidable risk, because of the inherent limitations of an audit, together with the inherent limitations of internal control, that some material misstatements or noncompliance may not be detected, even though the audit is properly planned and performed in accordance with U.S. GAAS, *Government Auditing Standards*, and the Uniform Guidance. Because we will not perform a detailed examination of all transactions, material misstatements, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity, may not be detected. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not require auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse.

In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of laws

or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a single audit.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the basic financial statements and compliance in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting fraud or errors that are material to the financial statements and to preventing and detecting misstatements resulting from noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with the direct and material compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify deficiencies, significant deficiencies, or material weaknesses in internal control. However, we will communicate to you in writing significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we identify during the audit that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the entity's compliance with the provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

We will include in our report on internal control over financial reporting and on compliance relevant information about any identified or suspected instances of fraud and any identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements that may have occurred that are required to be communicated under *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the entity's major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the "OMB Compliance Supplement" for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs. The purpose of these procedures will be to express an opinion on the entity's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

We will evaluate the presentation of the schedule of expenditures of federal awards in relation to the financial statements as a whole. We will make certain inquiries of management and evaluate the form, content, and methods of preparing the schedule to determine whether the information complies with U.S. GAAP and the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We will compare and reconcile the schedule to the underlying accounting records and other records used to prepare the financial statements or to the financial statements themselves.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

### Management responsibilities

Our audit will be conducted on the basis that you (management and, when appropriate, those charged with governance) acknowledge and understand that you have certain responsibilities that are fundamental to the conduct of an audit.

You are responsible for the preparation and fair presentation of the financial statements, RSI, and the schedule of expenditures of federal awards in accordance with U.S. GAAP. Management is also responsible for identifying all federal awards received, understanding and complying with the compliance requirements, and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of the Uniform Guidance.

Management's responsibilities include the selection and application of accounting principles; recording and reflecting all transactions in the financial statements; determining the reasonableness of significant accounting estimates included in the financial statements; adjusting the financial statements to correct material misstatements; and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Management is responsible for compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs. Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

You are responsible for the design, implementation, and maintenance of effective internal control, including internal control over compliance, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and that there is reasonable assurance that government programs are administered in compliance with compliance requirements.

You are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud; assessing the risk that the financial statements may be materially misstated as a result of fraud; and for informing us about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the

financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for implementing systems designed to achieve compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; identifying and ensuring that the entity complies with applicable laws, regulations, contracts, and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; and informing us of all instances of identified or suspected noncompliance whose effects on the financial statements should be considered.

You are responsible for taking timely and appropriate steps to remedy any fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we may report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings; and to follow up and take prompt corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review in October 2021.

You are responsible for ensuring that management is reliable and for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and for the accuracy and completeness of that information, and for ensuring the information is reliable and properly reported; (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance; (3) additional information that we may request for the purpose of the audit; and (4) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. You agree to inform us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements.

You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is responsible for the preparation and fair presentation of other supplementary information in accordance with U.S. GAAP. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include

the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. You agree to provide us written representations related to the presentation of the supplementary information.

Management is responsible for providing us with a written confirmation concerning representations made by you and your staff to us in connection with the audit and the presentation of the basic financial statements and RSI. During our engagement, we will request information and explanations from you regarding, among other matters, the entity's activities, internal control, future plans, specific transactions, and accounting systems and procedures. The procedures we will perform during our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the representations that we receive in the representation letter and otherwise from you. Accordingly, inaccurate, incomplete, or false representations could cause us to expend unnecessary effort or could cause a material fraud or error to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the entity's financial statements that we may fail to detect as a result of misrepresentations made to us by you.

Management is responsible for authorizing the predecessor auditor to allow us to review the predecessor auditor's workpapers and to respond fully to our inquiries, thereby providing us with information to assist us in planning and performing the engagement. You will be responsible for any fees billed by the predecessor auditor related to our review of their workpapers and our inquiries.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies to us of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the "Audit objectives" section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

#### Responsibilities and limitations related to nonaudit services

For all nonaudit services we may provide to you, management agrees to assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience to understand and oversee the services; evaluate the adequacy and results of the services; and accept responsibility for the results of the services. Management is also responsible for ensuring that your data and records are complete and that you have received sufficient information to oversee the services.

The responsibilities and limitations related to the nonaudit services performed as part of this engagement are as follows:

• We will prepare a trial balance for use during the audit. Our preparation of the trial balance is limited to formatting information into a working trial balance based on management's chart of accounts or general ledger. You will be required to review, approve, and accept responsibility for the trial balance.

- We will prepare a draft of your financial statements, schedule of expenditures of federal awards, and related notes in conformity with U.S. GAAP and the Uniform Guidance based on information provided by you. Since the preparation and fair presentation of the financial statements and schedule of expenditures of federal awards is your responsibility, you will be required to acknowledge in the representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. You have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements and schedule of expenditures of federal awards.
- We will propose adjusting journal entries as needed. You will be required to review and approve those entries and to understand the nature of the changes and their impact on the financial statements.
- We will prepare the Data Collection Form. Management is responsible to review for completeness and accuracy before submitting to the Federal Audit Clearing House.

These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

### Use of financial statements

The financial statements and our report thereon are for management's use. If you intend to reproduce and publish the financial statements and our report thereon, they must be reproduced in their entirety. Inclusion of the audited financial statements in a document, such as an annual report or an offering document, should be done only with our prior approval of the document. You are responsible to provide us the opportunity to review such documents before issuance.

If the parties (i.e., you and CLA) agree that CLA will not be involved with your official statements related to municipal securities filings or other offering documents, we will require that any official statements or other offering documents issued by you with which we are not involved clearly indicate that CLA is not involved with the contents of such documents. Such disclosure should read as follows:

CliftonLarsonAllen LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website or submitted on a regulator website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

We may issue preliminary draft financial statements to you for your review. Any preliminary draft financial statements should not be relied on or distributed.

### **Engagement administration and other matters**

We expect to begin our interim audit in June 2021 and our final audit in October 2021. We expect to issue our reports in December 2021.

We understand that your employees will prepare all confirmations, account analyses, and audit schedules we request and will locate any documents or invoices selected by us for testing.

At the conclusion of the engagement, we will complete the auditor sections of the electronic Data Collection Form SF-SAC and perform the steps to certify the Form SF-SAC and single audit reporting package. It is management's responsibility to complete the auditee sections of the Data Collection Form. We will create the single audit reporting package PDF file for submission; however, it is management's responsibility to review for completeness and accuracy and electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be electronically submitted within the earlier of 30 calendar days after receipt of the auditors' reports or nine months after the end of the audit period.

We will provide copies of our reports to the entity; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing confidential or sensitive information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the sole and exclusive property of CLA and constitutes confidential and proprietary information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to grantor agencies, or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of CLA personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the California State Controller's Office. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

CLA will not disclose any confidential, proprietary, or privileged information of the entity to any persons without the authorization of entity management or unless required by law. This confidentiality provision does not prohibit us from disclosing your information to one or more of our affiliated companies in order to provide services that you have requested from us or from any such affiliated company. Any such affiliated company shall be subject to the same restrictions on the use and disclosure of your information as apply to us.

Professional standards require us to be independent with respect to you in the performance of these services. Any discussion that you have with our personnel regarding potential employment with you could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Further, any employment offers to any staff members working on this engagement without our prior knowledge may require substantial additional procedures to ensure our independence. You will be responsible for any additional costs incurred to perform these procedures.

Our relationship with you is limited to that described in this letter. As such, you understand and agree that we are acting solely as independent accountants. We are not acting in any way as a fiduciary or assuming any fiduciary responsibilities for you. We are not responsible for the preparation of any report to any governmental agency, or any other form, return, or report or for providing advice or any other service not specifically recited in this letter.

Our engagement ends on delivery of our signed report. Any additional services that might be requested will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Government Auditing Standards require that we make our most recent external peer review report publicly available. The report is posted on our website at www.CLAconnect.com/Aboutus/.

#### Mediation

Any disagreement, controversy, or claim ("Dispute") that may arise out of any aspect of our services or relationship with you, including this engagement, shall be submitted to non-binding mediation by written notice ("Mediation Notice") to the other party. In mediation, we will work with you to resolve any differences voluntarily with the aid of an impartial mediator.

The mediation will be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with the assistance of the mediator, to reach an amicable resolution of the Dispute.

Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

### **Time limitation**

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any Dispute that may arise between the parties. The parties agree that, notwithstanding any statute or law of limitations that might otherwise apply to a Dispute, including one arising out of this agreement or the services performed under this agreement, for breach of contract or fiduciary duty, tort, fraud, misrepresentation or any other cause of action or remedy, any action or legal proceeding by you against us must be commenced within twenty-four (24) months ("Limitation Period") after the date when we deliver our final audit report under this agreement to you, regardless of whether we do other services for you relating to the audit report, or you shall be forever barred from commencing a lawsuit or obtaining any legal or equitable relief or recovery.

The Limitation Period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of the existence or possible existence of a Dispute.

#### **Fees**

Our maximum annual not to exceed fee for the year ending June 30, 2021, is set forth in the below table, which is inclusive of a five percent technology and client support fee. The below fees are based on anticipated cooperation from your personnel and their assistance with preparing confirmations and requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. If unexpected circumstances require significant additional time, we will advise you before undertaking work that would require a substantial increase in the fee and expense estimates. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our reports. You will be obligated to compensate us for all time expended and related fees and to reimburse us for all out-of-pocket expenditures through the date of termination.

Service	Amount	Technology Fee (5%)	Total
Inland Empire Utilities Agency Financial Audit	\$30,250	\$1,500	\$31,750
Inland Empire Utilities Agency Single Audit	\$5,585	\$280	\$5,865
Chino Basin Regional Financing Authority Financial Audit	\$4,150	\$210	\$4,360
Total			\$41,975

### **Unanticipated services**

We do not anticipate encountering the need to perform additional services beyond those described in this letter. Below are listings of services considered to be outside the scope of our engagement. If any such service needs to be completed before the audit can proceed in an efficient manner, we will determine whether we can provide the service and maintain our independence. If appropriate, we will notify you and provide a fair and reasonable price for providing the service. We will bill you for the service at periodic dates after the additional service has been performed.

#### Changes in engagement timing and assistance by your personnel

The fee estimate is based on anticipated cooperation from your personnel and their assistance with timely preparation of confirmations and requested schedules. If the requested items are not available on the dates required or are not accurate, we will advise management. Additional time and costs may be necessary because of such unanticipated delays. Examples of situations that may cause our estimated fee to increase include:

- Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents)
- Rescheduling our fieldwork
- Schedule disruption caused by litigation, financial challenges (going concern), loan covenants (waivers), etc.
- Identifying a significant number of proposed audit adjustments
- Schedules prepared by your personnel that do not reconcile to the general ledger
- Numerous revisions to information and schedules provided by your personnel
- Restating financial statements for accounting errors in the prior year
- Lack of availability of entity personnel during audit fieldwork

### Other fees

You also agree to compensate us for any time and expenses, including time and expenses of legal counsel, we may incur in responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings that we are asked to respond to on your behalf.

### Finance charges and collection expenses

You agree that if any statement is not paid within 30 days from its billing date, the unpaid balance shall accrue interest at the monthly rate of one and one-quarter percent (1.25%), which is an annual percentage rate of 15%. In the event that any collection action is required to collect unpaid balances due us, reasonable attorney fees and expenses shall be recoverable.

#### **Subcontractors**

CLA may, at times, use subcontractors to perform services under this agreement, and they may have access to your information and records. Any such subcontractors will be subject to the same restrictions on the use of such information and records as apply to CLA under this agreement.

### **Predecessor auditor communications**

You agree to provide us permission to communicate with the predecessor auditor and to authorize the predecessor auditor to respond fully to our inquiries regarding any matters that will assist us in finalizing our engagement acceptance. You further acknowledge that our final acceptance of the engagement is subject to the completion of those inquiries and evaluation of the responses.

### Agreement

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. This letter constitutes the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions

between you and CLA. If you have any questions, please let us know. Please sign, date, and return the enclosed copy of this letter to us to indicate your acknowledgment and understanding of, and agreement with, the arrangements for our audit of your financial statements including the terms of our engagement and the parties' respective responsibilities.

DocuSigned by:

Sincerely,

CliftonLarsonAllen	LLP
--------------------	-----

Docusigned by:

Mtin Patch

D85AE7C435B94A1...

Nitin Patel, CPA Principal 714-978-1300 Nitin.Patel@CLAconnect.com

**Enclosure** 

### Response:

This letter correctly sets forth the understanding of Inland Empire Utilities Agency.

Authorized management signature:	Shingi Deshmulk EAD800E4F0B34DA
Title:	General Manager
Date	5/5/2021



**Certificate Of Completion** 

Envelope Id: 94D0BA24D57B4D42A0BFEF24D705FB5E

Subject: CLA Engagement Letter/Inland Empire Utilities Agency - 237-710120

Client Name: Inland Empire Utilities Agency.

Client Number: 237-71012000

Source Envelope:

Document Pages: 23 Signatures: 4 **Envelope Originator:** 

Initials: 0 Certificate Pages: 5 Julie Tang

220 South 6th Street AutoNav: Enabled

Envelopeld Stamping: Enabled Suite 300

Time Zone: (UTC-06:00) Central Time (US & Canada) Minneapolis, MN 55402 Julie.Tang@claconnect.com

IP Address: 128.177.115.82

Sent: 4/30/2021 11:15:40 AM

Sent: 4/30/2021 11:17:29 AM

**Timestamp** 

Viewed: 4/30/2021 5:47:51 PM Signed: 5/5/2021 6:03:08 PM

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**Record Tracking** 

Status: Original Holder: Julie Tang Location: DocuSign

4/30/2021 11:13:32 AM Julie.Tang@claconnect.com

**Signer Events** Signature **Timestamp** 

Mtin Patel

Nitin Patel

Nitin.Patel@CLAconnect.com

Principal

Security Level: Email, Account Authentication

(None)

Shivaji Deshmukh

Signature Adoption: Pre-selected Style

Using IP Address: 104.129.198.241

**Electronic Record and Signature Disclosure:** 

Accepted: 4/30/2021 11:16:41 AM

ID: b3e5623e-a1ae-4fc4-b5b2-527707a5f69d

sdeshmukh@ieua.org General Manager

In Person Signer Events

Security Level: Email, Account Authentication

(None)

Signature Adoption: Uploaded Signature Image

Using IP Address: 107.127.56.144

Signed using mobile

Shing Deshmalk

**Electronic Record and Signature Disclosure:** Accepted: 4/30/2021 5:47:51 PM

ID: 76c350f3-9e64-483b-968b-45461a090ead

Signature

**Editor Delivery Events Status Timestamp** 

**Agent Delivery Events Status Timestamp** 

**Intermediary Delivery Events Status Timestamp** 

**Certified Delivery Events Status Timestamp** 

**Carbon Copy Events Status Timestamp** 

**Witness Events** Signature **Timestamp** 

**Notary Events** Signature **Timestamp** 

Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	4/30/2021 11:15:40 AM
Certified Delivered	Security Checked	4/30/2021 5:47:51 PM
Signing Complete	Security Checked	5/5/2021 6:03:08 PM
Completed	Security Checked	5/5/2021 6:03:08 PM
Payment Events	Status	Timestamps
Electronic Record and Signature Disclosure		

### ELECTRONIC RECORD AND SIGNATURE DISCLOSURE

From time to time, CliftonLarsonAllen LLP (we, us or Company) may be required by law to provide to you certain written notices or disclosures. Described below are the terms and conditions for providing to you such notices and disclosures electronically through the DocuSign system. Please read the information below carefully and thoroughly, and if you can access this information electronically to your satisfaction and agree to this Electronic Record and Signature Disclosure (ERSD), please confirm your agreement by selecting the check-box next to 'I agree to use electronic records and signatures' before clicking 'CONTINUE' within the DocuSign system.

# Getting paper copies

At any time, you may request from us a paper copy of any record provided or made available electronically to you by us. You will have the ability to download and print documents we send to you through the DocuSign system during and immediately after the signing session and, if you elect to create a DocuSign account, you may access the documents for a limited period of time (usually 30 days) after such documents are first sent to you. After such time, if you wish for us to send you paper copies of any such documents from our office to you, you will be charged a \$0.00 per-page fee. You may request delivery of such paper copies from us by following the procedure described below.

### Withdrawing your consent

If you decide to receive notices and disclosures from us electronically, you may at any time change your mind and tell us that thereafter you want to receive required notices and disclosures only in paper format. How you must inform us of your decision to receive future notices and disclosure in paper format and withdraw your consent to receive notices and disclosures electronically is described below.

### Consequences of changing your mind

If you elect to receive required notices and disclosures only in paper format, it will slow the speed at which we can complete certain steps in transactions with you and delivering services to you because we will need first to send the required notices or disclosures to you in paper format, and then wait until we receive back from you your acknowledgment of your receipt of such paper notices or disclosures. Further, you will no longer be able to use the DocuSign system to receive required notices and consents electronically from us or to sign electronically documents from us.

## All notices and disclosures will be sent to you electronically

Unless you tell us otherwise in accordance with the procedures described herein, we will provide electronically to you through the DocuSign system all required notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to you during the course of our relationship with you. To reduce the chance of you inadvertently not receiving any notice or disclosure, we prefer to provide all of the required notices and disclosures to you by the same method and to the same address that you have given us. Thus, you can receive all the disclosures and notices electronically or in paper format through the paper mail delivery system. If you do not agree with this process, please let us know as described below. Please also see the paragraph immediately above that describes the consequences of your electing not to receive delivery of the notices and disclosures electronically from us.

### How to contact CliftonLarsonAllen LLP:

You may contact us to let us know of your changes as to how we may contact you electronically, to request paper copies of certain information from us, and to withdraw your prior consent to receive notices and disclosures electronically as follows:

To contact us by email send messages to: BusinessTechnology@CLAconnect.com

# To advise CliftonLarsonAllen LLP of your new email address

To let us know of a change in your email address where we should send notices and disclosures electronically to you, you must send an email message to us at BusinessTechnology@CLAconnect.com and in the body of such request you must state: your previous email address, your new email address. We do not require any other information from you to change your email address.

If you created a DocuSign account, you may update it with your new email address through your account preferences.

## To request paper copies from CliftonLarsonAllen LLP

To request delivery from us of paper copies of the notices and disclosures previously provided by us to you electronically, you must send us an email to BusinessTechnology@CLAconnect.com and in the body of such request you must state your email address, full name, mailing address, and telephone number. We will bill you for any fees at that time, if any.

# To withdraw your consent with CliftonLarsonAllen LLP

To inform us that you no longer wish to receive future notices and disclosures in electronic format you may:

i. decline to sign a document from within your signing session, and on the subsequent page, select the check-box indicating you wish to withdraw your consent, or you may;

ii. send us an email to BusinessTechnology@CLAconnect.com and in the body of such request you must state your email, full name, mailing address, and telephone number. We do not need any other information from you to withdraw consent.. The consequences of your withdrawing consent for online documents will be that transactions may take a longer time to process..

# Required hardware and software

The minimum system requirements for using the DocuSign system may change over time. The current system requirements are found here: <a href="https://support.docusign.com/guides/signer-guide-signing-system-requirements">https://support.docusign.com/guides/signer-guide-signing-system-requirements</a>.

# Acknowledging your access and consent to receive and sign documents electronically

To confirm to us that you can access this information electronically, which will be similar to other electronic notices and disclosures that we will provide to you, please confirm that you have read this ERSD, and (i) that you are able to print on paper or electronically save this ERSD for your future reference and access; or (ii) that you are able to email this ERSD to an email address where you will be able to print on paper or save it for your future reference and access. Further, if you consent to receiving notices and disclosures exclusively in electronic format as described herein, then select the check-box next to 'I agree to use electronic records and signatures' before clicking 'CONTINUE' within the DocuSign system.

By selecting the check-box next to 'I agree to use electronic records and signatures', you confirm that:

- You can access and read this Electronic Record and Signature Disclosure; and
- You can print on paper this Electronic Record and Signature Disclosure, or save or send this Electronic Record and Disclosure to a location where you can print it, for future reference and access; and
- Until or unless you notify CliftonLarsonAllen LLP as described above, you consent to receive exclusively through electronic means all notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to you by CliftonLarsonAllen LLP during the course of your relationship with CliftonLarsonAllen LLP.



**Create Opportunities** 

# **Outline**

- Scope of services for year ending June 30, 2021
- Auditor' responsibilities
- Planned scope and timing



# **Scope of Service**

- Audit of the annual financial statements for the Inland Empire Utilities Agency and Chino Basin Regional Financing Authority for the year ending June 30, 2021 in accordance with Generally Accepted (US) and Governmental Auditing Standards
- Audit of federal grant expenditures under the Uniform Guidance
- Agreed-Upon-Procedures related to the Agency's calculation of the GANN limit

May 4, 2021



# Responsibilities

- Forming and expressing opinions on whether the financial statements prepared by management are fairly presented in all material respects in conformity with generally accepted accounting principles
- Planning process includes consideration of the Agency's internal control over financial reporting to determine the audit procedures
- Planning and performing the audit to obtain reasonable assurance whether the financial statements are free of material misstatements



# Responsibilities

- Examining in accordance with the Uniform Guidance about the Agency's compliance applicable to each of the major federal program for the purpose of expressing an opinion on the Agency's compliance with those requirements
- Communicating significant matters related to the financial statement audit that in our judgement are relevant to your responsibilities in overseeing the financial statement process



# Planned scope and timing of audit

- Audit includes examining on a test basis, evidence supporting the amounts and disclosure in the financial statements: therefore, our audit will involve judgement about the number of transactions to be examined and areas to be tested
- Material misstatements may result from:
  - Errors
  - Fraudulent financial reporting
  - Misappropriation of assets
  - Violations of laws or government regulations that are attributable to the
     Agency or to acts by management or employees acting on behalf of the Agency



# Planned scope and timing of audit

- Communicate significant findings and internal controls matters that are required to be communicated at the conclusion of the audit
- Timing of work
  - Interim fieldwork June 2021
  - Final fieldwork October 2021
  - Report issuance December 2021





# INFORMATION ITEM 2B



**Date:** June 16, 2021

To: The Honorable Board of Directors From: Teresa Velarde, Manager of Internal Audit

Tereja Octardo.

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Agency Vehicle Operational Follow Up Audit -

Review of Vehicle Inventory Procedures

# **Executive Summary:**

The Board approved Internal Audit Charter states that IA should perform follow up reviews on prior recommendations provided by IA to ensure corrective actions are taken. IA worked with the Facilities Management section to evaluate the implementation status of the three outstanding recommendations from the original audit of 2018. The original audit evaluated compliance with policies and procedures and evaluated controls in place to inspect, inventory and account for Agency vehicles. This review noted that one recommendation is implemented, one is in progress and one is closed. IA commends staff for the implementation of the scheduled fleet vehicle inspections with the use of the new monitoring tool by Fleetistics that remotely tracks vehicles and reports on the condition of the vehicles. The recommendation related to updating Agency policies is being closed pending adoption and updates made to policies that could result from the on going review of all Agency policies by an independent consultant that is working closely with Human Resources. IA will schedule future audits through an approved annual audit plan. Lastly, the audit found there are no reconciliation procedures performed between the department's records and the Agency's financial asset records to ensure all vehicles are accurately accounted for on both inventory reports. IA suggests that both departments work together. Additional follow up review will be planned. IA appreciates staff's assistance.

### **Staff's Recommendation:**

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

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

### **Prior Board Action:**

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters.

On June 17, 2020, the Report of Open Audit Recommendations (as of June 1, 2020) was provided to the Board of Directors as an information item.

### **Environmental Determination:**

Not Applicable

## **Business Goal:**

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

### **Attachments:**

Attachment 1 - Agency Vehicle Operational Follow Up Audit - Review of Vehicle Inventory Procedures Audit Report

Attachment 2 - PowerPoint

Board-Rec No.: 21132



DATE: May 27, 2021

TO: Shivaji Deshmukh

FROM: Teresa V. Velarde

Manager of Internal Audit

**SUBJECT: Agency Vehicle Operational Follow-Up Audit** 

**Review of Vehicle Inventory Procedures** 

# **Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) has performed a follow-up review of the recommendations from the 2018 Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures. The review was performed under the authority given by the Board of Directors (Directors) in the approved Fiscal Year (FY) 2020/21 Annual Audit Plan and the IAD's Charter. The Charter requires IA perform follow up reviews to evaluate corrective actions taken by departments.

# **Audit Objective and Scope**

The objective of the original Agency Vehicle Operational Audit was to evaluate the various processes related to Agency vehicles and determine if operations are in accordance with established policies. Additionally, to evaluate controls in place to inspect, inventory and account for Agency vehicles. The objective of this review was to evaluate the implementation status of the three recommendations outstanding from the original review completed in 2014 and subsequent first follow up review in 2018. IA did not expand the scope of the review to evaluate additional areas, future audits will be scheduled through the Board-approved Annual Audit Plan.

# **Audit Techniques:**

Audit techniques included:

- Discussions with Agency staff
- Review of policies and procedures
- Reviewing of supporting documents
- Observation and inspection of Agency vehicles
- Analysis of transactions

Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 2 of 18

# <u>Audit Results – Executive Summary</u>

Of the three outstanding recommendations remaining, IA found that one recommendation has been closed, one recommendation has been implemented, and one recommendation was not implemented and is restated in this report. The attached report provides details IAs observations, the bullet points below provide a summary of our review:

# Policies related to Agency Vehicles

The original audit in 2014 found that there were 6 different policies related to Agency vehicles for different procedures, including refueling and washing vehicles, issuance of vehicles, use, and payment processing of fuel cards. The policies have not been updated, some since 2005, and some processes are now outdated and do not match current the practices, or some processes are documented inconsistently across the policies and can create confusion for employees. In prior audits, IA recommended the policies be reviewed, updated and/or consolidated to streamline processes and clarify guidelines and expectations.

During a follow up evaluation in 2018, IA found that Facilities Management reviewed and made needed updates to the six policies related to Agency vehicles. Revisions and updates were forwarded to the Human Resources Department (HR) and Executive Management to finalize and publish. The policies were never updated and finalized.

In 2021, Human Resources initiated a Personnel Policy Review project that will include a comprehensive review of all Agency Administrative Policies and related documents. Due to the current evaluation of all Agency policies, IA is closing this recommendation for now and will plan to evaluate updated policies and processes during future audits and after the new/updated policies are approved by HR and Executive Management, and made available to staff.

### Vehicle Inspections

In the original audit, IA identified that vehicle and safety inspections were not regularly performed to ensure vehicles are operational and safety items are maintained as required by policies. During the 2018 follow-up audit, vehicle inspections were still not being performed consistently. With the assistance of Safety staff, IA performed inspections on a random sample of vehicles and found that several items required immediate attention. As a result of the 2018 audit, Facilities Management implemented a system to ensure routine vehicle and safety inspections are performed periodically. Additionally, Facilities Management, is implementing a monitoring tool, Fleetistics, that remotely tracks vehicles and reports on the condition of each vehicle and notifies staff when a vehicle requires attention. Facilities Management stated they plan to physically inspect all Agency fleet vehicles during a 12-month period and address items that require attention. Additionally, Facilities Management plans to document procedures to establish clear guidelines for inspections.

Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 3 of 18

# Reconciliation of records

The original audit found that there were no reconciliation procedures performed between the Operation's Maintenance Department vehicle inventory records and accounting's fixed asset records, both in the Agency's financial system, SAP. A reconciliation would compare vehicle inventory information and data maintained separately by each department, to ensure both records match and any discrepancies identified are resolved immediately. This review, like the 2018 review noted there are differences between the reports that require immediate attention. For example, this review noted that Facilities Management has surplussed some vehicles and purchased additional vehicles and these updates are not reflected in the accounting records. Not performing reconciliations could result in reporting incorrect asset information and unreliable inventory and asset records. Both, the Finance and Accounting Department and Facilities Management should work together to reconcile asset records.

# <u>Acknowledgements</u>

IA would like to extend our appreciation to Operations Division, Facilities Management staff for their cooperation and assistance during this review.

# **Discussions with Management**

IA provided the results of this follow-up review to Robert Delgado, Manager of Operations & Maintenance – South, Lucia Diaz, Deputy Manager of Maintenance, Frank Sotomayor, Facilities Program Supervisor – South Plant Maintenance and Dan Erro, Facilities Programs Coordinator on May 14, 2021 and May 25, 2021, and to Mr. Randy Lee, Executive Manager of Operations/Assistant General Manager on May 25, 2021, for their review and comments prior to finalizing this report. The draft report was also shared with Christina Valencia, Executive Manager of Finance and Administration/Assistant General Manager, Javier Chagoyen-Lazaro, Manager of Finance and Accounting, and Suresh Malkani, Principal Accountant on May 25, 2021 for their review and comments prior to finalizing. Comments, where provided, have been incorporated into this final draft.

If you have any questions or need additional information, please contact any member of the Internal Audit Department.

The Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

TV:sn

Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 4 of 18

### Background

Internal Audit completed the original audit related to the Agency's Vehicle Operations in 2014; the original audit provided 18 recommendations to tighten controls and processes. The purpose of the original audit was to evaluate the processes and controls for the Agency's fleet/utility vehicles, determine whether operations are in accordance with established policies and procedures, and identify opportunities to improve the efficiency and effectiveness of the program.

In 2018 and 2019, IA followed up on the original 18 recommendations and found that 8 recommendations are implemented, 3 are no longer applicable, 6 were restated (into 3 current recommendations), and 1 was deferred to another audit. After 2019, three recommendations continued to be outstanding.

This follow-up audit report provides the status of the three recommendations that were restated in the 2018 follow-up report and fall under the responsibility of Facilities Management under the Operations Division. No additional areas were evaluated, additional reviews will be performed in the future and scheduled through the Board approved Annual Audit Plan.

IA refers readers to each of the respective Agency Vehicle Operational audit reports, which were received and filed by the Board of Directors at the time of issuing the reports, these reports can also be accessed through the Agency's Intranet website or requested from the Manager of Internal Audit:

- Automobile Insurance Requirements dated March 3, 2014,
- Review of Vehicle Security Procedures dated March 3, 2014,
- Review of Vehicle Inventory Procedures dated March 12, 2014,
- Agency Vehicle Operational Follow-Up Audit: Automobile Insurance Requirements and Review of Vehicle Security Procedures dated August 30, 2018,
- Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures, dated November 29, 2018, and
- Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Security Procedures Gate Transmitters dated August 29, 2019.

Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 5 of 18

# **Agency's Fleet Management Program**

Facilities Management oversees the Agency's Fleet Management program for both light and heavy-duty vehicles/equipment. Facilities Management is responsible for all operations related to the Agency's fleet, including inventory, inspection, maintenance, usage, replacement, and assistance with the coordination of salvage and disposal of Agency vehicles.

Light duty vehicles are authorized to be driven on the roads such as automobiles, trucks, and vans, whereas heavy-duty equipment cannot be driven on the public streets and include forklifts, trailers, cranes, dump trucks, and so on. The focus of this follow-up audit was on the commercial and/or light-duty vehicles.

As of May 4, 2021, there were 104 of vehicles in operation and under the oversight responsibility of Facilities Management in the Operations Department. The department uses the Plant Maintenance (PM) module in the Agency's financial system (SAP), to inventory and account for the vehicles. The Agency's Fixed Asset Report, from the Financial module, also from the Agency's financial system (SAP) shows an acquisition value of approximately \$2.8 million and a current book value of \$488,000 for Agency vehicles (autos and trucks).

In 2020, the Agency adopted a monitoring system, Fleetistics, which is an on-board diagnostic system (OBD system). According to Facilities Management, the purpose of an on-board diagnostic system is to provide the Agency with the ability to monitor the use, location, elevation, and velocity of its vehicles. This diagnostic system will enhance the Agency's Fleet Management program because it provides real-time data on maintenance, safety, mileage, fuel economy, and location of Agency vehicles.

The OBD system is a physical unit that is attached to the Agency's vehicle to observe, monitor, and/or collect information, including vehicle telemetrics, Global Position System (GPS), wireless technology or location-based technologies. Two types of trackers were purchased by the Agency (see a picture of each below).



Geotab GO9 GPS + Telematics



Solar-Powered Asset Tracker

Agency Policy A-87 (Vehicle On-Board Diagnostic Policy, effective date June 22, 2020) was developed to govern the use and procedures related to the Fleetistics OBD system.

# Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures

# 2018 Recommendation #1:

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

### Status: CLOSED - NOT IMPLEMENTED - TO BE EVALUATED AT A LATER DATE

In the 2014 original audit, IA identified three Agency policies and one department-specific Standard Operating Procedures (SOP) that provided different guidelines and/or no guidelines on how an employee should refuel an Agency vehicle. Having multiple policies and procedures that have different or outdated information can create confusion and inconsistency in the application of those procedures.

During the 2018 follow-up audit, Facilities Management identified six Agency policies related to vehicle operations:

Agency Policy #	Name/Title of Policy	Date of last revision
A-14	Vehicle Use Policy	09/11/2008
A-17	Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency	07/15/2005
A-25	Disposal of Surplus Agency Personal Property, Materials, and Equipment	09/01/2006
A-27	Department of Motor Vehicle Records Verification and Confidentiality	07/15/2005
A-34	Maintenance, Washing and Fueling of Agency Vehicles	07/15/2005
A-86	Refueling Agency Vehicles	02/04/2013

Facilities Management initiated a review process to update and consolidate the related policies. Facilities Management drafted a "final version" of the new A-14 "all-encompassing" policy and provided to management, Executive Management and HR for review and final approval, with a planned date of full adoption by July 2019.

In the 2021 follow-up review, IA inquired with Facilities Management and HR on the plans for the updated policy(ies) related to this audit. HR stated they are currently working with a consultant to perform a comprehensive review of all Agency documents that govern the employment relationship. Through this project, the external consultants will review the Agency's Administrative Policies, which will include the six vehicle related policies. The policy review project is expected to be completed in Fiscal Year 2021/22 and at that time HR will evaluate and make updates to the Agency's policies. Due to the ongoing review process, this recommendation is considered closed until policies are updated. IA will

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schedule additional audits to evaluate compliance with new/updated policies once new policies have been adopted and implemented.

IA has provided various recommendations related to the Agency's vehicles through the various audits completed. IA is available to provide assistant with reviewing the Agency's policies, or other documents related to Fleet operations to provide suggestions, comments, and/or recommendations for consideration.

## 2018 Recommendation #2:

Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.

## **Status: IMPLEMENTED**

The original 2014 audit found that vehicle and safety inspections were not being performed periodically to identify and address items requiring attention.

In the 2018 follow-up audit, IA and Safety personnel performed a physical observation of a sample of Agency vehicles selected by IA. The purpose of the vehicle inspections was to evaluate compliance with Agency policies, and to review the exterior and interior of the vehicles and the condition of the safety-related items. IA identified multiple observations and issues that required Facilities Management's attention.

As a result of the prior review, Facilities Management stated they have implemented a process to inspect 25% of the vehicles each quarter to reach 100% inspections each year.

For the 2021 follow-up review, IA confirmed that Facilities Management is performing physical inspections of Agency vehicles. The bullet points below describe the plan for vehicle inspections:

- Annual inspection Vehicle inspections are conducted throughout the fiscal year meeting the objective of 25% each quarter to reach 100% inspections. For efficiency, Facilities Management staff conducted most vehicle inspections during the scheduled annual maintenance that is performed by the contractor on all Agency vehicles, between the months of September to November.
- Additional inspections Random vehicle inspections are performed between the months of December to June, which is in the 2<sup>nd</sup> half of the FY, to maintain the objective of 25% each quarter to reach 100% inspections. During the random

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inspections, staff assess the vehicle's condition and determine if any maintenance and/or repairs are required.

Prior to the purchase of the Fleetistics system, Facilities Management developed a hardcopy checklist to review both the exterior and interior of the vehicle. All items reviewed and any issues identified were noted on the checklist, and the inspections sheets were scanned to have them available electronically and retained according to the Agency's Record Retention Schedule.

With the implementation of the OBD system, Facilities Management has shifted to performing the vehicle inspections using the *Geotab Drive* app, hardcopy inspections sheets are no longer completed. In the Geotab Drive app, the Driver Vehicle Inspection Report (DVIR) is selected from the drop-down menu and the following 12 areas are reviewed by Agency staff during the inspection:

GeoTab Drive App  DVIR Log  IEUA Monthly Driver Monthly Inspection  Sections Reviewed and Responses available to be selected during Vehicle Inspections		
Brakes (Parking) – Weak or ineffective, other	Windshield/Glass – cracked, worn wipers, other	
Brakes (Service) – Warning light not working, Warning light on, weak or ineffective or other	Mirrors – Broken or cracked, loose or insecurely mounted, missing, or other	
Fluid Level Check – Brake fluid Level, coolant level, oil level, power steering level, transmission level, windshield wiper fluid	Tires – Bulging or swelling, improperly inflated, insufficient tread, tread or sidewall separation, other	
Horn - Inoperable, Other	Steering – drifts or pulls left, drifts or pulls right, excessive vibration, other	
Lights and Reflectors – Cracked or broken, inoperable brake light, inoperable emergency lights, inoperable headlight high beam, inoperable headlight low beam, inoperable interior light, inoperable left turn signal, inoperable right turn signal, other	Safety – Check seatbelt, fire extinguisher expired/low charge, fire extinguisher missing, first aid kit missing/expired, missing registration, insurance policy, IEUA emergency contacts, accident procedure card, remove loose items, other	
Wheels and Rims – bent, cracked, or damaged, missing spare, other	Vehicle Exterior Condition – Decals, dents, paint condition, strap down loose items, other	

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The table below outlines the vehicle inspections performed by Facilities Management during FY 2020/21:

Data on the Number of Vehicle Inspections performed by Facilities Management			
	Monday/Year of vehicle inspection performed	Format used to document vehicle inspections	Number of Vehicle Inspections performed
Annual Inspection	September/	Hardcopy Inspection Sheets	89
	October 2020	retained electronically	Out of 105 (85%)
Additional Inspections	January 2021	Geotab Drive app	21
	February 2021	Geotab Drive app	14
	April 2021	Geotab Drive app	13

Any issues identified, Facilities Management staff documents the information in the hardcopy checklist and/or Geotab Drive app. According to staff, issues identified during vehicle inspections that require attention are addressed immediately.

On May 5, 2021, IA accompanied Facilities Management to observe the vehicle inspections. Facilities Management perform physical inspections with three staff members to ensure all items are reviewed. The inspections assessed the exterior and interior of the vehicles and safety items. See results of audit observations in the table that follows: (Facilities Management indicated they are already working to address the items noted through their current processes.)

IA Observations of Vehicle Inspections Performed on Wednesday, May 5, 2021		
Vehicle No.	Location Inspected <sup>(1)</sup>	Items noted/observed
0602	RP-4	Agency Logo was peeling off, cleanliness of the cab/rear of the vehicle, and Club was left on the backseat of the vehicle.
1806	RP-4	Passenger rear light not working, Emergency Road Service Assistance information needs to be updated. Overall, vehicle was in clean condition.
1402	RP-4	Emergency Road Service Assistance information needs to be updated, no fire extinguisher.
0803	RP-4	Windshield was cracked, no fire extinguisher
0711	RP-4	Inoperable rear light, traffic cone appears to be worn out and bright orange color is no longer visible due to being dirty and overused.
1818	RP-4	No exceptions noted.
1505	IERCA	No on-board diagnostic system installed. No First-aid kit, no fire extinguisher, no DMV vehicle registration information, no emergency road service assistance information. Automobile insurance information was expired. Vehicle interior was clean.

9902	IERCA	No on-board diagnostic system installed. Windshield cracked. No fire extinguisher. First aid kit and automobile insurance information expired.
0205	IERCA*	No on-board diagnostic system installed. No First aid kit. Automobile insurance information expired. Brakes (Parking) appeared weak or ineffective. License plate lights require attention. Vehicle ID decal needs to be replaced
0501	IERCA*	No on-board diagnostic system installed. Rear dome light cracked/broken. Vehicle right side has rear dent/scratch. Vehicle ID needs to be added (No ID number on the vehicle). First aid kit, automobile insurance, emergency vehicle service protocol, vehicle refueling washing instructions are expired. Inside the vehicle, items are unorganized. Cleanliness of the cab/read of the vehicle. Floor mats are completely worn out.
1705	HQB	Flashlight not working, latex gloves were disintegrated, and unidentified item was left in the red storage container.

- (1) Locations inspected are Regional Plant No. 4 (RP-4), Inland Empire Regional Composting Authority (IERCA), and IEUA Headquarters Building B (HQB)
- According to Facilities Management, IERCA vehicles have not been part of the inspections. Staff is evaluating the plan to include them in future inspections or continue to exclude these.

IA commends Facilities Management staff for performing vehicle inspections and using the Fleetistics/Geotab software system to electronically document the inspections performed. Correction efforts taken by Facilities Management meet the intent of the 2018 Recommendation # 2 and is now considered Implemented.

During the vehicle inspections, other items were observed, IA provides the following suggestions for consideration:

# Facilities Management should:

- Address the items noted and observed during the vehicle inspections resulting from this audit (see results in table).
- Document a department Standard Operating Procedure to address:
  - Document and record inspections to ensure there is a plan to periodically inspect all vehicles.
  - The process for inspections and how identified issues are addressed and resolved.
  - Determine what safety items and equipment should be maintained in the non-assigned vehicles.

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- Determine which vehicles should have a Fleetistics tracking unit installed (Headquarters, Regional Plants, IERCA, and Chino Desalter Authority (CDA), etc.).
- Determine if vehicles assigned to IERCA will be regularly inspected by Facilities Management (As stated, IERCA vehicles are currently not part of their oversight).
- Utilize the online tools available through the Fleetistics software system, to document and monitor issues identified and actions taken to resolve those.

#### 2018 Recommendation #3:

Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.

Status: NOT IMPLEMENTED - RESTATED

The 2014 original audit identified:

- Vehicles and equipment listed in the Agency's financial system (SAP) that did not reconcile with the Mileage report (used by the responsible department-in-charge (Maintenance) for inventory purposes).
- Vehicle data in the Mileage report was not always complete with VIN# and license plate # information, making it difficult to identify an Agency vehicle.

In the 2108 follow-up audit, IA reviewed list of vehicles maintained by Facilities Management and compared this information to the asset listing retained in the Agency's financial system (SAP). The following was noted:

- 10 vehicles listed in Facilities Management's records could not be identified in the Agency's Fixed Asset Listing from SAP
- 6 vehicles listed in the Fixed Asset Listing but could not be identified in Facilities Management records
- 1 vehicle was the same in both records, but the VIN or Serial # was different in SAP

As a result of the 2018 follow up evaluation, IA restated the 2014 recommendation as the current 2018 recommendation. During this review, IA reassessed the implementation status and found that the recommendation continues to be outstanding.

For this follow up review, IA had discussions with both the Facilities Management and the Finance and Accounting Departments to understand their processes and procedures for maintaining vehicle and asset records. Based on our discussions, it was discovered that the departments do not have any process in place to compare and reconcile their

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separate asset reports. Both departments agreed that working together to reconcile periodically would benefit to ensure asset records are accurate and current.

Asset Balances (Current Book Value), SAP T-Code S ALR 87012041 (Fixed Asset Report) – IEUA and IERCA combined (showed 96 vehicles that should be in operation and physically accounted for (from SAP F5 module): A fixed asset report is a detailed list of all the vehicles owned and in use by the Agency. The purpose of maintaining a fixed asset report is to have an accurate record of each asset and the information retained includes both financial and non-financial information, which provides information to easily identify and verify an asset when required.

For IEUA, the current acquisition value of the vehicles is approximately \$2.8 million with a book value of \$488K according to the current Fixed Asset Report in the Agency's Financial System. Currently, the Agency's Fixed Asset Report does not include 14 vehicles that were purchased and cost approximately \$400-\$500K and put into operational use in 2019. These unrecorded assets can potentially have a material difference on the Agency's financial statements. Only Finance and Accounting have access to this report in SAP.

<u>Display Equipment: Equipment List, SAP T-Code IH08 (Display Equipment Report)</u> – IEUA and IERCA combined (showed 104 vehicles in service and physically accounted by Facilities Management from SAP PM module): Report is used by Facilities Management to maintain an inventory list of vehicles under their responsibility and used for record maintenance.

<u>Device Report – IEUA only</u> (showed 101 vehicles in service and being monitored from Fleetistics, under the Geotab system): used by Facilities Management to track and monitor vehicles using the Fleetistics tracking units and employee assignment of vehicles.

It is important to ensure the three reports are complete and accurate and list all Agency operating vehicles, with as much identifying information as possible to ensure a complete record for inventory purpose, accounting valuation, insurance purpose, tracking, assignments, etc.

IA applied several audit procedures to review and compare the three reports to determine the completeness, accuracy and reliability of the reports used by the different departments. The attached exhibit provides the specific details of the audit findings. In summary, the audit found:

The three lists do not match 100% and are difficult to reconcile; therefore, it may appear there is no complete/reliable inventory record of vehicles. Specifically, IA found that:

 Not all information is complete and accurate, there are empty fields or incorrect information in the designated fields. Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 13 of 18

- Not all reports show the same VIN# and Vehicle ID# need one identifying number that is similar across all reports. The reports do not interface with each other even though they both come from the same system (SAP).
- Not all vehicles appear on all three reports. Specifically, Operations has surplussed older vehicles and purchased newer vehicles, but the information is not current in the accounting records. Additionally, the Fixed Asset Report shows:
  - o 14 vehicles on Facilities Management's records were not on the Fixed Asset Report maintained by Finance and Accounting. These represent newer vehicles that have not been recorded in the Agency's Fixed Asset Report as assets placed into operation. The acquisition value of these vehicles is approximately between \$400-\$500K, which means the financial statements do not reflect the true value of the assets and depreciation.
  - o 12 vehicles listed as current and in operation on the Fixed Asset Report are designated as assets that have been surplus and/or disposed of on the Display Equipment Report. The Finance and Accounting Department has not been notified with the appropriate and approved documentation to remove the assets off the Fixed Asset List.
  - 5 vehicles listed as current and in operation on the Fixed Asset Report but could not be identified in Facilities Management records (Display Equipment, Device Report). These same vehicles were identified in 2018 follow-up audit, and could not be reconciled to Facilities Management's records at that time as well.

IA requested from Facilities Management the documentation to support the addition of the newer vehicles and the older vehicles that have been surplus and/or disposed of. As of the date of this report, Facilities Management has not provided the requested documentation to the Internal Audit.

As stated in the prior follow-up evaluation, reconciliations of vehicle asset records have not been performed because the departments each rely on one report for their intended purposes. Good internal controls state that periodic reconciliations should be performed to ensure the accuracy, reliability, and completeness of information. It is important that the records reconcile to ensure all assets are accounted for properly. Finance and Accounting should have a record of the actual vehicles in operation to ensure the financial statements are complete and accurate. Facilities Management should have a record of the vehicles in operation to ensure they have custody and control of the assets purchased by the Agency.

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IA shared and discussed the audit findings listed in the attached Exhibit with both the Facilities Management staff and Finance and Accounting staff to understand their role in maintaining their respective asset reports. IA recommends both departments work together to resolve the discrepancies noted during this review and perform periodic comparisons to reconcile any differences. Both departments agreed that a reconciliation is necessary and important.

The 2018 recommendation has been restated as 2021 Recommendation # 1.

IA notes that there are several steps both departments need to work on and implement to ensure that the reports reconcile. Below is the recommendation that notes procedures for each department:

#### **2021 RECOMMENDATION #1**

Finance and Accounting Department (FAD) Facilities Management should work together to reconcile the asset records in SAP:

- The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency departments.
- Facilities Management should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc.
- FAD should and will continue to provide on-going training and departments should reach out for additional information and guidance.
- Facilities Management should document their own SOP for the process of adding, removing and tracking assets under their custody.

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#### **EXHIBIT**

#### **DETAILS OF AUDIT PROCEDURES AND FINDINGS**

IA compared the following 3 different reports to reconcile assets listed in the financial system to the assets maintained by Facilities Management in their inventory records. IA found that Lists do not match and do not reconcile; therefore, there does not appear to be a complete/updated inventory record of vehicles. Below are the details of IAs evaluation of the reports:

#### Fixed Asset List provided by Finance and Accounting Department (FAD):

- 1 Vehicle, Asset number 70093, both the Vendor Part # and License Plate Number fields are blank and/or contain no data.
- 1 Vehicle, Asset number 700122, License Plate Number field contains no data.
- 13 vehicles were added in May 2019, after IA's 2018 follow-up review. Data inputted for the following columns are either incorrect and/or no information was entered at all:
  - o <u>Make/Model</u>: Serial number was entered instead of the vehicle's make and model
  - o Serial Number: Vehicle's license plate was entered in-lieu of the VIN or Serial number.
  - o <u>Vendor Part #</u>: No information was entered; column usually contains the Vehicle ID number.

## <u>Display Equipment: Equipment List Report used by Facilities Management to track the vehicles in the Agency's financial system (SAP)</u>

• 1 Vehicle (Vehicle #1912) has the incorrect operational status in the User status column, SURP (means Surplus). According to Facilities Management, this vehicle is currently in use and should have a status of INUS (means In Use). In the Fleetistics/Geotab system, this vehicle is assigned to an employee. Currently, this report shows a total of 104 vehicles as having an In Use (INUS) status, when in fact the Agency has 105 vehicles. Having the correct operational status provides an accurate count of the Agency's vehicles.

As a result of IA's review, Facilities Management updated and corrected the Vehicle's User Status to **INUS** (Vehicle #1912) in the Agency's financial system (SAP).

#### **Device Report from the Fleetistics/Geotab system provided by Facilities Management:**

 4 vehicles assigned to the IERCA did not have a Geotab GO9 GPS + Telematics or Solar-Powered Asset Tracker installed; therefore, these 4 vehicles are not listed on the Device Report in Fleetistics/Geotab system.

## 1. <u>Compared the IEUA Fixed Asset List (SAP) to Display Equipment Report (SAP), both reports</u> generated from Agency's financial system (SAP):

#### A total of 30 vehicles did not reconciled when reports were compared:

• (this is the same issue from prior audit 2018) **5** vehicles listed on the Fixed Asset List could not be traced to the Display Equipment Report. Additionally, these 5 vehicles were listed as part of the 6 vehicles that could not be traced from SAP to Facilities Management's records in the 2018 follow-up report.

Number	Asset	Make/Model	Vendor Part #	Serial Number	Invent. no	Asset Description
1	700025	None	None	5ASAG47411F0154	04OA03007	2001 ELECTRIC VEHICLE
2	700035	RAM 1500 4X4	RAM 1500 4X4	1B7HF16Y71S2322	02PA01006/02	RP1-2001 DODGE RAM 1500 4X4 P
3	700064	None	Ford	None	04PA04004/07	FORD TRUCK
4	700095	None	None	None	PA07015	PURCHASE VEHICLES
5	700098	None	None	None	EC08003.00	Collections Group Water Truck

Source: SAP (Vehicle Fixed Asset List) traced to Facilities Management's 2018 records.

- 25 vehicles listed on the IEUA Fixed Asset List could not be traced to the Display Equipment Report:
  - 13 vehicles were added in May 2019, but no data was entered in Vendor Part # column. Because the fields were left blank (Vehicle ID number), IA is unable to trace these vehicles to the Display Equipment Report.
  - O 12 vehicles listed on the IEUA Fixed Asset List were found on the Display Equipment Report but have an operational status of Surplus which means the vehicle has been disposed of and/or should not be in operation. However, 1 of those 12 vehicles (Vehicle #0608) appears in the Fleetistics system as an assigned, active vehicle.

## 2. <u>Compared the IERCA Fixed Asset List (SAP) to the Display Equipment Report (SAP), both reports generated from Agency's financial system (SAP):</u>

• 1 vehicle listed on the IERCA Fixed Asset List could not be traced to the Display Equipment Report. (2019 Ford F-750 SD Diesel Water Truck).

## 3. Compared the Display Equipment Report (SAP) to the IEUA Fixed Asset List (SAP), both reports generated from Agency's financial system (SAP):

 31 vehicles listed on the Display Equipment Report with a status of *In Use* could not be traced to the IEUA fixed asset list. Of the 31 vehicles, 4 vehicles were listed in the prior 2018 follow-up report, vehicles that could not be traced from Facilities Management records traced to SAP. Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures May 27, 2021 Page 17 of 18

• Information entered is not entered correctly, it does not allow for reconciling and matching and cross-referencing both lists.

## 4. Compared the Display Equipment Report to IERCA Fixed Asset List, both reports generated from Agency's financial system (SAP):

Prior 2018 issue noted still not resolved: 2 vehicles could not be traced from Facilities Management records to SAP (#0205 and #0501).

• The same 2 vehicles (# 0205 and 0501) listed on the Display Equipment Report could not be traced to either the IERCA or the IEUA Fixed Asset List.

In total, there are 4 vehicles assigned to IERCA per the Display Equipment Report and IA verified the vehicle's existence during the physical vehicle inspections; however, only 2 vehicles are listed in the IERCA Fixed Asset Listing and the two noted above (# 0205 and 0501) are missing from the listing.

## 5. <u>Compared the Display Equipment Report (SAP) to Fleetistics/Geotab Drive Software System:</u>

- 5 vehicles could not be traced from the Display Equipment: Equipment List Report to the Fleetistics/Geotab Drive Software systems because they do not have a Fleetistics tracking unit installed:
  - 4 vehicles are assigned to IERCA (0205, 0501, 1505, and 9902). Because they are assigned to IERCA these have not been installed with a Fleetistics tracking unit.
  - 1 vehicle (9211) has an operational status of In Use (INUS) on the Display Equipment Report but cannot be traced to the Fixed Asset Listing (both IEUA and IERCA) nor Fleetistics, it does not have a Fleetistics tracking unit.

As a result of IA's review, Facilities Management updated and corrected the Vehicle's User Status to **SURP** (Vehicle #9211) in the Agency's financial system (SAP).

#### 6. Compared Fleetistics/Geotab Drive Software System to Display Equipment Report:

- 2 vehicles could not be tracked from Fleetistics to the Display Equipment Report in SAP:
  - Vehicle #1912 currently has the incorrect operational status (SURP)

As a result of IA's review, Facilities Management updated and corrected the Vehicle's User Status to **INUS** (Vehicle #1912) in the Agency's financial system (SAP).

 Vehicle #0608 is in Fleetistics and on the Fixed Asset Listing but has the incorrect status (SURP) on the Display Equipment Report.

#### 7. Compared the Fleetistics/Geotab Drive Software System to Fixed Asset Listing:

- 31 vehicles could not be tracked from Fleetistics to the IEUA Fixed Asset Listing in SAP:
  - Prior 2018 issue noted still not resolved: 4 vehicles could not be traced from Facilities Management records to SAP (#0612, 0613, 0702, and 0703).
  - 27 vehicles listed in Fleetistics could not be reconciled to the IEUA Fixed Asset Listing. Information inputted is not entered correctly, it does not allow for reconciling and matching and cross-referencing both lists.

IA performed additional procedures for the 27 vehicles and cross-referenced them using the VIN numbers found in Fleetistics to the information in the Fixed Asse Listing.

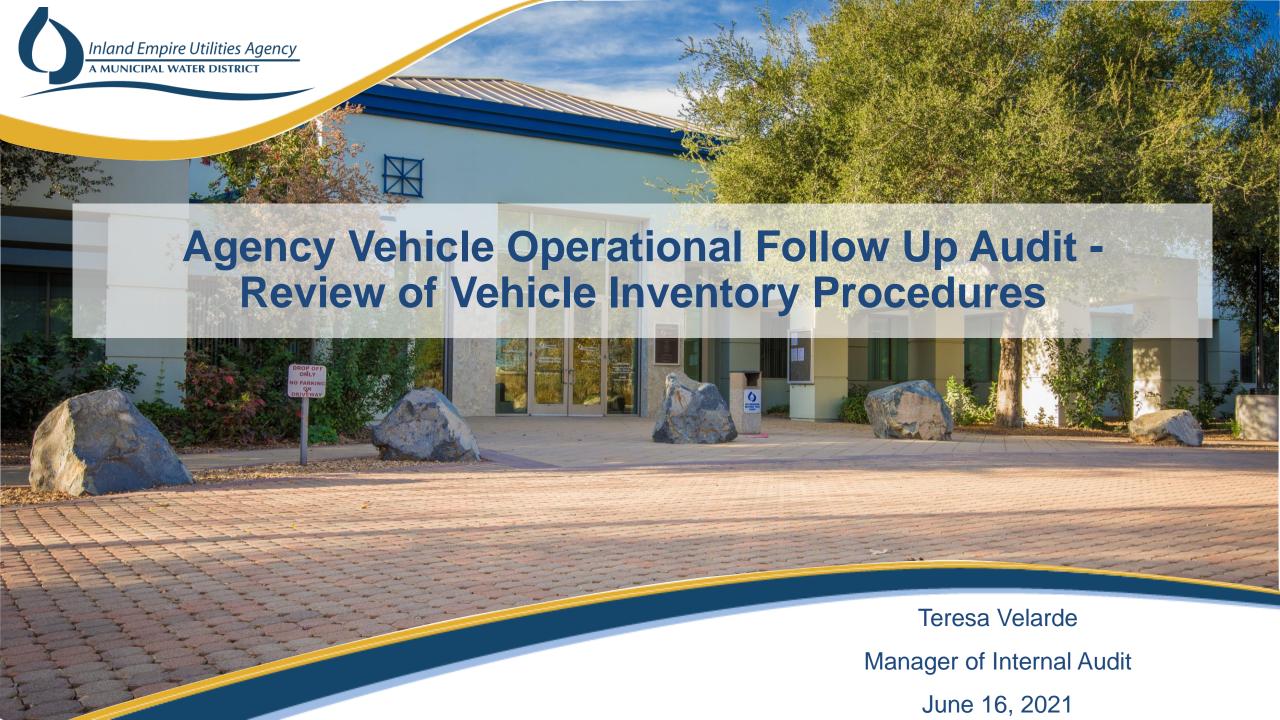
13 vehicles could be identified using the VIN numbers from the Fleetistics report.
 IA noted for 3 of those vehicles, the VIN numbers in Fleetistics and the Fixed Asset
 Listing do not match because a letter or number was inputted incorrectly.

## Same vehicles in both records based on license plate number, but the VIN or Serial # are different:

Number	Source:	Device/ Asset Number	Device Group/ Asset Description	License Plate No.	VIN or Serial #
1	Fleetistics	VEH1815	E&I North, ¾ ton truck	1555766	1 <b>F</b> D7X2A61JED02633
1	Fixed Asset Listing	Asset # 700163	2018 Ford F250 Pickup Truck	1555766	1 <b>H</b> D7X2A61JED02633
2	Fleetistics	VEH1817	Mechanics North, ¾ ton truck	1555779	1FD7X2A6 <b>5</b> JED02635
	Fixed Asset Listing	Asset # 700165	2018 Ford F250 Pickup Truck	1555779	1FD7X2A6 <b>1</b> JED02635
3	Fleetistics	VEH1901	Collections, ¾ ton truck	1555778	1FD7X2A65K <b>E</b> C12760
	Fixed Asset Listing	Asset # 700171	2019 Ford F250 Pickup Truck	1555778	1FD7X2A65K <b>R</b> C12760

 14 vehicles could not be traced to the Fixed Asset Listing. These represent newer vehicles that have not been recorded in the Finance and Accounting Fixed Asset List.

Using the report Fleetistics report, these appear to be VEH1904-1918 and are different type of cars and trucks. These 14 vehicles approximately cost between \$400K-\$500K. Any vehicles purchased by the Agency are recorded in the Administrative Fund and reflected on those individual fund financial statements in the Agency's Comprehensive Annual Financial Report.



# Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures



## Original Audit of the Vehicle Inventory Procedures in 2018

# Objective

# 3 outstanding recommendations

## Summary

- One recommendation Closed
- One recommendation Implemented
- One recommendation In Progress and Restated

## 2018 Recommendation #1:



### Status: CLOSED - NOT IMPLEMENTED - TO BE EVALUATED AT A LATER DATE

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

Agency Policy #	Name/Title of Policy	
A-14	Vehicle Use Policy	09/11/2008
A-17	Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency	07/15/2005
A-25	Disposal of Surplus Agency Personal Property, Materials, and Equipment	
A-27	Department of Motor Vehicle Records Verification and Confidentiality	07/15/2005
A-34	Maintenance, Washing and Fueling of Agency Vehicles	07/15/2005
A-86	Refueling Agency Vehicles	02/04/2013

IA will evaluate compliance with new/updated policies once new policies have been adopted and implemented.

IA is available to provide assistance with reviewing policies and provide suggestions related to potential updates.

## 2018 Recommendation #3:



#### **Status: NOT IMPLEMENTED - RESTATED**

Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.

**Fixed Asset Lists – IEUA and IERCA combined** (shows 96 vehicles that should be in operation and physically accounted for) (from SAP FI module): the report is used by Accounting to record assets with the corresponding acquisition and book value. Only Finance and Accounting have access to this report in SAP.

**Display Equipment: Equipment List – IEUA and IERCA combined** (shows 104 vehicles in service and physically accounted by Facilities Management) (from SAP PM module): Report is used by Facilities Management to maintain an inventory list of vehicles under their responsibility and used for record maintence.

**Device Report – only IEUA showing** (shows 101 vehicles in service and being monitored) from Fleetistics, under the Geotab system): used by Facilities Management to track and monitor vehicles using the Fleetistics tracking units and employee assignment of vehicles.

## 2018 Recommendation #3:



The three lists do not match 100% and are difficult to reconcile; therefore, it may appear there is no complete/reliable inventory record of vehicles. Specifically, IA found that:

- Not all information is complete and accurate, there are empty fields or incorrect information in the designated fields.
- Not all reports show the same VIN# and vehicle # need one identifying number that is similar across all reports. The reports do not interface with each other even though they both come from the same system (SAP).
- Not all vehicles appear on all three reports. Specifically, Operations has surplused older vehicles and purchased newer vehicles, but the information is not current in the accounting records:



## The 2018 recommendation has been restated

## 2021 RECOMMENDATION #1

The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency departments. The departments should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc. FAD will continue to provide on-going training and departments should reach out for additional information and guidance. Additionally, department's should document their own SOP for the process of adding, removing and tracking assets under their custody.



# INFORMATION ITEM 2C



Date: June 16, 2021

**To:** The Honorable Board of Directors From: Teresa Velarde, Manager of Internal Audit

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

**Subject:** Contracts and Procurement Follow-Up Review of recommendations related to the

Master Trade Contracts Audit Report

#### **Executive Summary:**

The Board approved Internal Audit Charter states that IA should perform follow up reviews on prior recommendations provided by IA to ensure corrective actions are taken. IA worked with the Contracts and Procurement Department to evaluate the implementation status of the outstanding recommendations from the original Master Trade Contracts Audit of 2016. The original audit evaluated compliance with procurement policies and procedures and how work is approved, issued and verified. This follow up review noted that all five outstanding recommendations are now considered implemented or closed. Specifically, staff implemented procedures to ensure selection process contract evaluation documentation is centrally retained and available for review. Staff also implemented an automated report that serves as a control to notify staff when total contract spending limits and expiration dates are approaching. Additionally, the department supports ongoing training related to ethics topics for staff and also is available to provide and enhance communications related to ethics topics as they relate to procurement activities for all Agency employees, vendors and contractors. Lastly, the department has implemented practices to ensure their staff is cross-trained to ensure continuation of services. IA commends the CAP department for their efforts in implementing the recommendations and appreciates staff for their cooperation and assistance during this review.

#### **Staff's Recommendation:**

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

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

#### **Prior Board Action:**

On September 21, 2016, the Board of Directors received and filed the original Master Trade Contracts Audit & Response audit report which provided six recommendations to tighten controls and improve processes.

#### **Environmental Determination:**

Not Applicable

#### **Business Goal:**

The Contracts and Procurement Follow-Up Review of recommendations related to the Master Trade Contracts Audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving compliance with policies and fulfill organizational goals and objectives.

#### **Attachments:**

Attachment 1 - Audit Report: Contracts and Procurement Follow-Up Review of recommendations related to the Master Trade Contracts Audit Report Attachment 2 - PowerPoint

Board-Rec No.: 21133



DATE: May 27, 2021

TO: Shivaji Deshmukh

General Manager

FROM: Teresa V. Velarde

Manager of Internal Audit

SUBJECT: Follow-Up Review: Contracts and Procurement Recommendations

related to the Master Trade Contracts Audit Report

#### **Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) has performed a follow-up review of the five open audit recommendations from the Master Trade Contracts Audit & Response. This review was performed under the authority given by the Board of Directors in the approved Fiscal Year 2020/21 Annual Audit Plan and IA's Charter. The Charter states that follow up reviews will be performed on recommendations provided by IA to ensure corrective actions are taken.

#### **Audit Scope**

The objectives of the Master Trade Contracts Audit in 2016 were to evaluate compliance with policies and procedures, evaluate how work is issued, verified and approved, and to evaluate if processes follow the Agency's procurement policies. Six recommendations were provided in 2016. One recommendation was deemed implemented in 2020. The purpose of this follow up review was to evaluate the implementation status of the five remaining outstanding recommendations.

#### **Audit Techniques:**

Audit techniques included:

- Discussions with Agency staff
- Review of Agency policies and department procedures
- Review and analysis of supporting documents

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 2 of 10

#### Audit Results - Executive Summary

As a result of this 2021 review, all five remaining recommendations from the original audit are now considered implemented or closed and no longer applicable. The attached report provides details of IAs review, the bullet points below provide a summary of the results:

Contract Evaluation Documentation: During the original audit in 2016, IA suggested that CAP retain sufficient and consistent supporting documentation for the selection process of the Master Trade Contracts. IA found that the documentation retained differed by the user departments and suggested CAP be the central filing location. Additionally, the audit identified that the information communicated through the Board Letter was not consistent with the final contract terms. IA recommended that CAP ensure the information communicated to the Board agree to the terms of the contract.

For this 2021, IA randomly selected for review five contracts. The audit noted that the final documentation related to the executed contracts is retained in the Agency's financial system (SAP). The review also found that CAP now retains supporting documentation for the proposal and selection process in their department files; or the documentation is retained at the user-department level. Retention of records in a centralized location is considered a best practice because it provides accessibility and visibility.

- <u>Automated Report</u>: During the original audit, IA recommended the implementation of a control to assist or notify staff when total contract spending reached the approved limit to ensure spending limits are not exceeded. IA recommended to research automated and/or built-in tools within SAP to ensure contract spending does not exceed Board-approved limits. In 2019, CAP worked closely with Business Information Services and together they developed the Contract Expiration Report to monitor contract spending and contract expiration dates. The report identifies contracts expiring within the upcoming 30 through 120 days, contract actuals and total values and is considered an effective tool to monitor spending for individual contracts by project managers and staff.
- Agency's Ethics Outreach Plan: During the original audit, IA suggested that CAP work with other Agency departments to enhance communications about the ethical responsibilities with regards to procurement activities, to all Agency employees, vendors, and contractors. In 2021, Human Resources initiated a Personnel Policy Review project that includes a comprehensive review of the Agency's Administrative Policies including related ethics policy documents. Due to the current evaluation of all Agency policies, this recommendation is closed and will be evaluated during a future audit once the new policies and documents are approved by Executive Management and available to all Agency staff.

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 3 of 10

- Ethics Training: The original audit recommended that CAP staff participate in ongoing training related to ethics topics specific to their job responsibilities to stay current and informed of new trends and risks. CAP is supportive and staff receives ethics and fraud awareness training (in-person and/or virtual) through professional associations and the Agency's Safety Tailgate program.
- <u>Cross-Training</u>: The original audit recommended that CAP consider cross training staff to ensure adequate coverage of services to assist employees during CAP staff absences or changes. CAP has had staff turnover and retirements since the original audit was completed. CAP indicated that staff had to be cross trained to ensure continuation of services to all Agency departments.

All recommendations are considered implemented or closed. IA commends CAP for their efforts in implementing the original recommendations.

The CAP recommendations related to the Master Trade Contracts Audit & Response Follow-Up review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving organizational goals and objectives.

#### <u>Acknowledgements</u>

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

#### **Discussions with Management**

IA provided the results of this follow-up review to Christina Valencia, Executive Manager Finance and Administration/Assistant General Manager, Warren Green, Manager of CAP, and Susannah Shoaf, CAP Supervisor on May 11, 2021, for their review and comments prior to finalizing this report, their responses have been incorporated.

TV:sn

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 4 of 10

#### **Background**

The Contracts and Procurement Department (CAP) provides the following services: contract administration, procurement oversight, risk management and oversees the Agency's safety program. CAP assists the departments in the acquisition of Agency's goods and services, including equipment, materials, supplies, and professional services. CAP assists the Agency in implementing the Agency's Board-approved Procurement Ordinance.

In 2016, Internal Audit (IA) performed an audit to assess oversight over procurement processes for Master Trade Contracts. The objectives of the original audit were to evaluate whether processes followed the requirements of Agency's approved procurement policies for these types of contracts, Master Trade Contracts.

The Master Trade Contracts are groups of contracts pre-established to make procurement of trade services more efficient. The intent is to save time and resources and ensure only the most qualified contractors able to provide the best overall value, are selected. Master Trade Contracts are used for smaller maintenance and repairs with specific trades that include corrosion assessment, painting, roofing, fencing and asphalt repair. Master Trade Contracts are administered by CFS primarily on behalf of the Maintenance Department. Most of the contracts are limited to a maximum of \$100,000 in services over the contract term and involve a competitive process of pre-selecting contractors in each trade to establish the contracts. The responsibility for the bidding process has varied with Maintenance rather than CFS. The contracts for the "trade" or "craft" are generally established for a specific amount of time (3 – 5 years) and the not to exceed dollar amount. The trade or crafts include: roofing, fencing, asphalt, painting, etc.

This follow up evaluation was not limited to evaluating the processes to establish and monitor Master Trade Contracts. The scope of this follow up evaluation included evaluating processes withing the Contracts and Procurement Department.

Six recommendations were provided during the original audit in 2016. In 2020, one was determined to be fully implemented. This follow-up review evaluated the 5 outstanding recommendations. All five recommendations are now considered to be fully implemented or closed and no longer applicable.

Note: At the time of the original audit, the department responsible for establishing Master Trade Contracts was called Contracts and Facilities Services Department (CFS). The department has been renamed to Contracts and Procurement Department (CAP). This report refers to both "CFS" and/or "CAP" to indicate the responsibilities of the current CAP department.

## Follow-Up Review to the Master Trade Contracts Audit Report dated September 1, 2016

#### **Original Recommendation #1:**

IA recommends that even in instances where a different department has primary responsibility for the proposal evaluation process, CFS [CAP] work with the end-user department to ensure the information is communicated to the Board of Directors accurately reflects the signed contract terms. Additionally, CFS [CAP] should determine the need to request from the evaluating department the evaluation documentation, or a staff memo summarizing the selection process and have it available/filed.

#### **Status: Implemented**

The original 2016 audit found the proposal evaluation process and the retention of documents for Master Trade Contracts varied by the nature of the services being requested and by the department completing the evaluation. IA noted instances where CAP was not the responsible party for the communication (through the Board Letter) to the Board of Directors, but the information communicated to the Board was incomplete or was not entirely in agreement with the terms of the final, signed contract. IA recommended that CAP and Agency departments work together to establish consistency in the process and records retained to ensure the information communicated to the Board represents the final contract terms. In addition, IA suggested that CAP request and retain documentation from Agency department about the selection process.

In this 2021 follow-up evaluation, IA randomly selected 5 recent contracts and noted that the final documentation related to the executed contracts is retained in the Agency's financial system (SAP). The review also found that CAP now retains supporting documentation for the proposal and selection process in their department files; or the documentation is retained at the user-department level. And retained according to the Agency's Records Retention schedule. CAP works closely with all departments and provides guidance to ensure sufficient supporting documentation is retained and filed where readily accessible for review. Retention of records in a centralized location is considered a best practice because it provides accessibility, visibility and ensures continuity of services. IA encourages CAP to fully utilize the Agency's financial system (SAP) to retain contract related documents for greater transparency and accessibility.

Based on the results of the audit, the recommendation is now considered implemented.

#### Original Recommendation #2:

IA recommends that CFS [CAP] work with BIS to research built-in tools within SAP to implement automated controls necessary to ensure that spending on contracts and groups of contracts do not exceed Board approved limits and determine the cost benefit of implementing those monitoring tools.

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 6 of 10

#### **Status: Implemented**

During the original 2016 audit, IA observed that a control was necessary to alert staff when the total contract spending is near the approved limit to ensure spending limits are not exceeded. IA noted there were instances where the contract limits vary or are set on the group of contracts instead of the individual contract, which can complicate monitoring the contract. At the time of the original review, the only mechanism used to track contract spending was a spreadsheet, which required a periodic reconciliation to be performed manually, additional time and detail.

In January 2019, in coordination with CAP, Business Information Services developed the "Contract Expiration Forecast" report, which lists all the contracts that are about to expire within the next 30, 60, 90 and 120 days. The purpose of the "Contract Expiration Forecast" is to provide adequate notice of contracts that are expiring within specific category of dates and to allow for timely actions to be taken, by the respective project managers, without disruption to business operations. The report is generated from SAP monthly and emailed to all Agency managers. The benefits of the monthly report are:

- Provides visibility and highlights contracts that are expiring in the short-term.
- Creates on-going communication between CAP staff and Project Managers for contracts that are reaching the maximum dollar limit or end date.
- No longer requires manual reconciliation of contract spending through various reconciliation techniques.
- Generated and sent to all managers and supervisors on the 3<sup>rd</sup> Thursday of every month.
- Compiled using the data available from the Agency's financial system (SAP).

An example of the Contract Expiration Forecast circulated on April 15, 2021 is below. The information populated in this report includes project manager name, contract number, vendor name, CAP buyer, contract period, number of days remaining, contract amount, contract balance and purchase order balance.

This report serves as an automated tool that assists staff with monitoring the amount procured on Agency contracts and helps ensure contract spending does not exceed Board-approved limits and provides notice before the contract expires. The implementation of the Contract Expiration Forecast Report satisfies the original recommendation.

Inland Er A MUNICIP	mpire Utilities Agency AL WATER DISTRICT	C	Contract Expiration Forecast Open Contracts as of 4/15/2021				Published On: 4/15/2021 Page 1 of 5	
Contracts Expiring within 30 Days								
Project Manager Contract #	Vendor	Buyer	Valid From	Valid To	Days Left	Contract Amt	Contract Bal.	PO Balance
	_							
		Contracts	s Expiring w	ithin 60	Days			
Project Manager Contract #	Vendor	Buyer	Valid From	Valid To	Days Left	Contract Amt	Contract Bal.	PO Balance
Contracts Expiring within 90 Days								
Project Manager Contract #	Vendor	Buyer	Valid From	Valid To	Days Left	Contract Amt	Contract Bal.	PO Balance
	_			_				

#### **Original Recommendation #4:**

IA recommends that CFS [CAP] enhance communications about the Agency's ethical procurement responsibilities and expectations to all Agency employees as well as Agency vendors and contractors to actively foster an ethical procurement environment. CFS [CAP] should consider creating an ethics outreach plan and developing an approach with Agency Executive Management and Human Resources about reinforcing the "tone at the top" to actively remind employees and contractors/ vendors about the Agency's ethical expectations including once again providing annual notifications of ethical guidelines to vendors and staff. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.

#### Status: Closed. No Longer Applicable

During the original audit in 2016, IA recommended that to promote a stronger ethical environment, communications should be enhanced about the Agency's Ethics Policy, expectations of ethical behavior and responsibilities of employees, vendors and contractors, specific to procurement activities. When the original evaluation was performed, IA observed that reference was made to the topic of ethical guidelines with information found in multiple locations on the Agency's intranet and external webpage as well as various Agency policies.

During the original audit, CAP maintained ethical guidelines on the Agency's intranet under the department's internal webpage. Additionally, the Agency's website referred to the Ethics Resolution and 8 related Agency policies and directed readers to the Ethics-Point website, and all employees are required to review annually the Agency's Ethics Resolution and policy as part of the Safety Tailgate Topics program.

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 8 of 10

CAP's position is that ethical behavior is very important and fostering an ethical environment is the responsibility of everyone at the Agency. CAP stated they can communicate the ethical guidelines and highlight its importance related to procurement activities, but the CAP department does not have enforcement power; nor can they hold employees accountable to the Agency's ethical guidelines. Ethics and ethical behavior and guidelines should be established, governed, and communicated through the Agency's culture of a top-down approach. IA's position is that every department and every employee have some level of responsibility to understand and promote ethical behavior. CAP's position is to promote ethical responsibilities within procurement processes by observing the Procurement Ordinance and requirements that govern fair procurement practices. CAP stated that they will uphold those policies and requirements in the course of procurement transactions.

The table below outlines all the documents and locations where the Agency addresses the various topics within ethics, including conflict of interest, fraud, procurement, etc.

Source	Webpage Location	Title of the Section/ Name of Document
Agency's Intranet	Policies and Procedures	A-28 Standard of Ethics
Agency's Intranet	Finance and Administration	Purchasing Ethics
Agency's Intranet	Governance and Legal	Ethics/Fraud Hotline
Agency's Intranet	Governance and Legal	IEUA Administrative Handbook (2017)
Agency's Intranet	Governance and Legal	Conflict of Interest Code (Adopted February 17, 2021)
Agency's Website	Main Page	EthicsPoint (bottom of the page)
Agency's Website	About Us/Transparency	EthicsPoint
Agency's Website	About Us/Transparency	IEUA Administrative Handbook (2018)

The Agency has multiple documents in multiple locations (both internally and externally) that touch on the topic of Ethics, Fraud Hotline, and Conflict of Interest. Having multiple sources of information in many different locations can create confusion about the Agency's message. Agency management should determine if this is the best way to communicate and foster the desired ethical climate and environment.

Currently, the Human Resources (HR) Department has undertaken a project to have all Administrative policies be reviewed by an independent consultant (approved by the Board in January 2021) and to provide feedback on how to improve the Agency's policies and documents. HR anticipates the following will be addressed through the policy review project:

- Distinguish and separate personnel policies versus non-personnel policies.
- Create and/or emphasize what employees are expected to know and do.
- Remove policies that are more reflective of a department SOP, not an Agencywide policy.

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According to HR, other documents to be reviewed as part of this process include EthicsPoint, IEUA Administrative Handbook, and Conflict of Interest Code. Any suggestions provided by the consultant will be reviewed and considered by the HR Department and Executive Management. The Policy review project is anticipated to be completed in Fiscal Year 2021/22.

Since the on-going Policy review project includes the review of Agency's Ethics related documents, IA determines this recommendation is no longer applicable and will close until a future review/audit is planned after the implementation of updated policies. Future reviews will be scheduled as approved through the Board approved Annual Audit Plan.

IA has provided various recommendations on ethics-related documents and policies. Both CAP and IA are readily available to assist in reviewing the Agency's policies, plans and/or any other documents related to this topic.

#### Original Recommendation #5:

IA recommends CFS [CAP] staff attend annual training related to ethics in their respective procurement activities.

#### **Status: Implemented**

CAPs position is that it is important to foster an ethical environment at the Agency, specifically with regard to procurement activities. To maintain and foster an ethical climate within the department, CAP staff attends ethics related training on an annual basis. The recent types of ethics related training completed by the department include:

#### CAP Department Ethics-related Training Completed January 2020 – April 2021

Junuary 2020 Tipin 2021							
Date	Training Host	Name of the Training	No. of staff that attended	Duration of Training			
February 2020 (Pre-pandemic)	California Association of Procurement Professionals Officials	Conference - Workshop: Ethical Contracting - Red Flags and Rigged Bids	3 (Note: Information shared with CAP staff and posted to Department's Shared drive)	In-person 1 hour			
August 2020 (Post-pandemic)	National Institute of Governmental Purchasing	Being Ethical: Its's not Always Easy	All staff	Virtual 1 hour			
Annually	Agency's Safety Tailgate Topics program	Agency Policy A-28 Standard of Ethics (effective: February 8, 2016)	All staff	Self-study/ Online			

Since CAP's staff receives specific training related to ethics and assists in fulfilling their duties as contracting and procurement professionals, this recommendation is considered implemented.

Follow Up Review of Master Trade Contracts Audit May 27, 2021 Page 10 of 10

#### 2016 Original Recommendation #6:

In addition to the cross-training that is already occurring, IA suggests that CFS [CAP] consider the potential benefits of job rotation within the CFS [CAP] department as a training and internal control technique with multiple benefits.

#### **Status: Implemented**

During original 2016 audit, IA observed that CAP staff served as subject matter experts for their individual contracting areas. While expertise in an area was a benefit, in the event of staff absences; there was not sufficient coverage or assistance by other administrators. IA recommended that the CAP consider the benefits of cross-training and job rotation.

Since the original audit in 2016, CAP has experienced staff turnover and retirements. This has resulted the department having to train, and cross-train its staff.

According to CAP, department staff discuss all on-going projects during staff meetings, all procurement information and documentation is stored in a centralized location for all to access and follow. Additionally, CAP staff work together to ensure there are primary and secondary staff assigned to all contracting and procurement activities to provide the best service possible to its clients.

CAP does not have a formal cross-training program but does have department-specific Standard Operating Procedures (SOPs). Documented procedures are the foundation of good internal controls to ensure consistency and accuracy in applying the approved processes. SOPs serve as a training tool and manual for other staff, especially during staff absences, staffing changes, and for cross-training to ensure the continuity of the services. Department SOPs are part of the Agency's internal control framework and a recommended best practice.

On the Agency's intranet (under the CAP section), CAP has 31 SOPs listed and the version date ranges between 2009 to 2013. According to CAP, an internal review is due and several SOPs can be eliminated to correspond with updated processes and procedures. CAP plans to review and update their SOPs by October 2021.

IA supports and recommends that CAP take the time to review and update their department-specific Standard Operating Procedures to address the many processes and activities of the department and to ensure these are readily available to all staff.

IA would like to extend our appreciation to the Contracts and Procurement staff for their cooperation and assistance during this review. Please contact IA for additional information.





## Original Audit of the Master Trade Contracts Audit in 2016

# Objective

Six original recommendations

# Summary of Results

- One recommendation implemented in 2020
- 5 recommendations implemented or closed in 2021





IA recommends that even in instances where a different department has primary responsibility for the proposal evaluation process, CFS [CAP] work with the end-user department to ensure the information is communicated to the Board of Directors accurately reflects the signed contract terms. Additionally, CFS [CAP] should determine the need to request from the evaluating department the evaluation documentation, or a staff memo summarizing the selection process and have it available/filed.

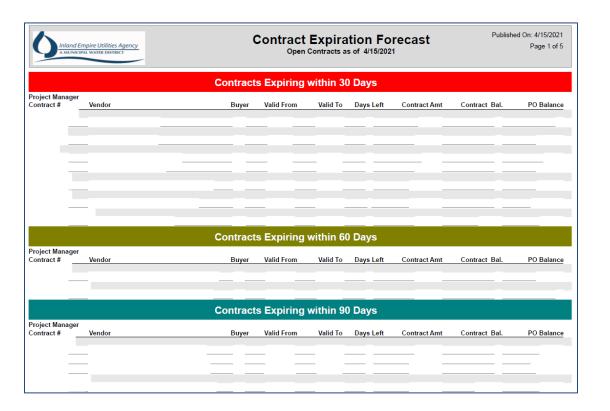
**Status: Implemented** 

# **Original Recommendation #2:**



## **Status: Implemented**

IA recommends that CFS [CAP] work with BIS to research built-in tools within SAP to implement automated controls necessary to ensure that spending on contracts and groups of contracts do not exceed Board approved limits and determine the cost benefit of implementing those monitoring tools.







## **Status: Closed. No Longer Applicable**

IA recommends that CFS [CAP] enhance communications about the Agency's ethical procurement responsibilities and expectations to all Agency employees as well as Agency vendors and contractors to actively foster an ethical procurement environment. CFS [CAP] should consider creating an ethics outreach plan and developing an approach with Agency Executive Management and Human Resources about reinforcing the "tone at the top" to actively remind employees and contractors/ vendors about the Agency's ethical expectations including once again providing annual notifications of ethical guidelines to vendors and staff. Agency management may also want to incorporate references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.

Source	Webpage Location	Title of the Section/ Name of Document		
Agency's Intranet Policies and Procedures		A-28 Standard of Ethics		
Agency's Intranet	Finance and Administration	Purchasing Ethics		
Agency's Intranet	Governance and Legal	Ethics/Fraud Hotline		
Agency's Intranet	Governance and Legal	IEUA Administrative Handbook (2017)		
Agency's Intranet	Governance and Legal	Conflict of Interest Code (Adopted February 17, 2021)		
Agency's Website	Main Page	EthicsPoint (bottom of the page)		
Agency's Website	About Us/Transparency	EthicsPoint		
Agency's Website	About Us/Transparency	IEUA Administrative Handbook (2018)		





**Status: Implemented** 

IA recommends CFS [CAP] staff attend annual training related to ethics in their respective procurement activities.

CAP Department Ethics-related Training Completed January 2020 – April 2021

Date	Training Host	Name of the Training	No. of staff that attended	Duration of Training
February 2020 (Pre-pandemic)	California Association of Procurement Professionals Officials	Conference - Workshop: Ethical Contracting - Red Flags and Rigged Bids	3 (Note: Information shared with CAP staff and posted to Department's Shared drive)	In-person 1 hour
August 2020 (Post-pandemic)	National Institute of Governmental Purchasing	Being Ethical: <u>Its's</u> not Always Easy	All staff	Virtual 1 hour
Annually	Agency's Safety Tailgate Topics program	Agency Policy A-28 Standard of Ethics (effective: February 8, 2016)	All staff	Self-study/ Online

# **Original Recommendation #6:**



## **Status: Implemented**

In addition to the cross-training that is already occurring, IA suggests that CFS [CAP] consider the potential benefits of job rotation within the CFS [CAP] department as a training and internal control technique with multiple benefits.



# INFORMATION ITEM 2D



Date: June 16, 2021

To: The Honorable Board of Directors From: Teresa Velarde, Manager of Internal Audit

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Report on Open Audit Recommendations

#### **Executive Summary:**

The Board-approved Internal Audit Department (Charter) requires the Internal Audit Department (IA) to provide the Audit Committee and the Board with an annual report listing all outstanding recommendations including action plans and expected resolution dates. The Charter also requires IA staff to follow-up on the status of outstanding audit recommendations to determine if corrective action efforts have been made to address the original observation or finding. A recommendation is considered "outstanding" when management agreed with the original recommendation at the time of the audit but the area audited has not yet addressed the observation noted or requires IA's verification to close out the item. Responses to the recommendations, including action plans, were discussed and incorporated in the original audit report when provided. As of June 2021, 21 recommendations relate to policies, 53 recommendations are for departments, 31 recommendations relate to Regional Contract Review. Attached is a report showing the recommendations and the current status of each. In most cases, IA must perform a follow-up review to verify implementation efforts and the corrective actions taken. Follow-up review is scheduled according to the proposed Annual Audit Plan or sooner if requested by management, the Audit Committee, the Board, or if risk and/or priority increases for the area reviewed. This report is updated, with the completion of new and follow-up audits.

#### **Staff's Recommendation:**

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

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

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

#### **Prior Board Action:**

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters.

On June 17, 2020, the Report of Open Audit Recommendations (as of June 1, 2020) was provided to the Board of Directors as an information item.

#### **Environmental Determination:**

Not Applicable

#### **Business Goal:**

The Report of Open Audit Recommendations is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices. IA's ongoing monitoring activities are to follow-up on the status of open audit recommendations to determine if the staff have taken corrective action to address audit observations and issues identified. IA provides recommendations and to tighten internal controls, improve processes and assist the Agency and the Board in achieving compliance with policies and organizational goals.

#### **Attachments:**

Attachment 1 - Report of Open Audit Recommendations

Attachment 2 - PowerPoint

Board-Rec No.: 21134

as 01 Julie 1, 2021				
Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment	
Accounts Payable Follow-Up Audit August 29, 2013	4	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	HR is currently working with an outside consultant to review all Agency Policies. The review is planned for completion sometime in 2022. IA deferred these recommendations to the Accounts Payable - Operational and Internal Control Audit scheduled for FY 2021-22 and will evaluate implementation status after all policies have been updated and implemented.	
Accounts Payable Follow-Up Audit August 29, 2013	5	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	HR is currently working with an outside consultant to review all Agency Policies. The review is planned for completion sometime in 2022. IA deferred these recommendations to the Accounts Payable - Operational and Internal Control Audit scheduled for FY 2021-22 and will evaluate implementation status after all policies have been updated and implemented.	
Regional Contract Review - Final Report December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	Overall	Review and revise EDU formula	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	Overall	Resolve identified differences of over/under collected amounts of Connection fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	1	<u>Connection Fees:</u> Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	2	<u>Connection Fees:</u> IEUA should establish monitoring program to inspect random facilities and those were there is a suspected discrepancy	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	3	Connection Fees: Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	4	Connection Fees: Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	5	Connection Fees: Two tier connection fees process that distinguishes between common features and unique features (i.e, a toilet always costs the same regardless of type of business)	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	6	Connection Fees: Update Exhibit J regularly to include new/evolving business types	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	7	Connection Fees: Update & clarify Fixture Unit descriptions of Exhibit J regularly	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	8	Connection Fees: Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent regionwide	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	9	<u>Connection Fees:</u> IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	
Regional Contract Review - Final Report December 16, 2015	10	<u>Connection Fees:</u> Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	Recommendation to be addressed as part of the Renegotiation of the Regional Contract. IA will follow-up at that time.	

Audit Performed Rec # Internal Audit Recommendation Target for Implementation & Commer				
Regional Contract Review -	Nec #	Connection Fees:	Recommendation to be addressed as part of the	
Final Report	11	IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies -	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015	''	Building Departments	at that time.	
-		Connection Fees:		
Regional Contract Review -	40		Recommendation to be addressed as part of the	
Final Report	12	Contracting Agency internal review of Connection Fees as part of preparing the Building Activity	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		Report	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	1		Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		Collect monthly sewerage fees for the entire region through County's property tax roll	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	2	Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		consider alternatives by water consumption, EDUs purchased or other methodology	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	3	Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015	١	sewerage charges	at that time.	
Regional Contract Review -				
		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	4	Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		issuing monthly invoices	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	5	IEUA exercise inspection, verification and recourse rights for under-collected/under-reported	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		monthly sewerage fees	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	6	Contract should include IEUA right to audit, full cooperation and access to records and documents	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		upon request	at that time.	
Regional Contract Review -		Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	7	Update 1997 billing memorandum regularly for new business types to provide detailed definitions	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		and descriptions	at that time.	
Regional Contract Review -			Recommendation to be addressed as part of the	
Final Report	8	Monthly Sewerage:	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		Create a correlation between monthly sewerage fees and Connection Fees	at that time.	
Regional Contract Review -			Recommendation to be addressed as part of the	
Final Report	9	Monthly Sewerage:		
•	9	Add billing guidance for locations with multiple types of businesses serviced by a master meter	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015			at that time.	
Regional Contract Review -	4.0	Monthly Sewerage:	Recommendation to be addressed as part of the	
Final Report	10	Bill commercial businesses at least a minimum of one EDU per month	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015			at that time.	
Regional Contract Review -		Public Service Facility:	Recommendation to be addressed as part of the	
Final Report	1	Consider legal, political and financial impacts of excluding Public Service Facilities from Connection	Renegotiation of the Regional Contract. IA will follow-up	
•	'		at that time.	
December 16, 2015	_	Fees and monthly sewerage charges.		
Regional Contract Review -	_	Public Service Facility:	Recommendation to be addressed as part of the	
Final Report	2	Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015	_	calculations, collections and CCRA accounts	at that time.	
Regional Contract Review -		Public Service Facility:	Recommendation to be addressed as part of the	
Final Report	3	Contract should include IEUA inspection, verification and recourse rights for under-collected/under-	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		reported Connection Fees	at that time.	
Regional Contract Review -		Public Service Facility:	Recommendation to be addressed as part of the	
Final Report	4	Contract should include IEUA right to audit, full cooperation and access to records and documents	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		upon request	at that time.	
		· · · ·		

as of June 1, 2021				
	Rec#	Internal Audit Recommendation	Target for Implementation & Comment	
Regional Contract Review -		Public Service Facility:	Recommendation to be addressed as part of the	
Final Report	5	Address difference between "Publicly Owned" vs. "Publicly Used"	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		Address difference between Fublicity Owned Vs. Fublicity Osed	at that time.	
Regional Contract Review -		Bullio Coming Facility	Recommendation to be addressed as part of the	
Final Report	6	Public Service Facility:	Renegotiation of the Regional Contract. IA will follow-up	
December 16, 2015		Consider cross-departmental approach to the development review process as a regional model	at that time.	
, ,				
		ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e.,		
IT Equipment		serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish		
August 21, 2012	3	procedures to enter, modify, and delete information in the tracking systems that address areas such	Additional time is required for full implementation. IA will	
(February 29, 2016 Follow-Up)		as timeliness for updates, responsibilities for maintaining the systems, and the types of items	re-verify during follow-up evaluation.	
(* *******, ***************************		included in the tracking system.		
IT Equipment		<u> </u>		
November 14, 2012	1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager		
(February 29, 2016 Follow-Up)		of CAP, CFO, AGM, or GM prior to committing to services.	re-verify during follow-up evaluation.	
теления (предоставления предоставления предоставлен				
		IA recommends that even in instances where a difference department has primary responsibility for		
		the proposal evaluation process, CFS work with the end-user department to ensure the information		
Master Trade Contracts		is communicated to the Board of Directors accurately reflects the signed contract terms.	Evaluated during May 2021 and how considered	
	1		Evaluated during May 2021 and now considered	
September 1, 2016		Additionally, CFS should determine the need to request from the evaluating department the	implemented.	
		evaluation documentation, or a staff memo summarizing the selection process and have it		
		available/filed.		
Master Trade Centra etc		IA recommends that CFS work with BIS to research built-in tools within SAP to implement	Evaluated during May 2004 and new considered	
Master Trade Contracts	2		Evaluated during May 2021 and now considered	
September 1, 2016		exceed Board approved limits and determine the cost benefit of implementing those monitoring tools	implemented.	
		IA recommends that CFS enhance communications about the Agency's ethical procurement		
		responsibilities and expectations to all Agency employees as well as Agency vendors and		
		contractors to actively foster an ethical procurement environment. CFS should consider creating an		
Master Trade Contracts			Evaluated during May 2021 and now considered	
September 1, 2016	4	Resources about reinforcing the "tone at the top" to actively remind employees and contractors/	implemented.	
September 1, 2010		vendors about the Agency's ethical expectations including once again providing annual notifications	Implemented.	
		of ethical guidelines to vendors and staff. Agency management may also want to incorporate		
		references to the Agency's Ethics Hotline and Ethics Point "FAQs" in that communication.		
			5 1 1 1 1 1 1 1 1 1 1 1 1 1	
Master Trade Contracts	5	IA recommends CFS staff attend annual training related to ethics in their respective procurement	Evaluated during May 2021 and now considered	
September 1, 2016		activities.  In addition to the cross-training that is already occurring, IA suggests that CFS consider the potential	implemented.	
Master Trade Contracts	c		Evaluated during May 2021 and now considered	
September 1, 2016	6	benefits of job rotation within the CFS department as a training and internal control technique with multiple benefits.	implemented.	
		Intuitiple petients.		
IT Equipment		FMD should implement adequate controls to ensure that the stated capitalization policy for IT		
August 21, 2012	15	equipment is consistently followed to ensure that all items meeting the capitalization threshold are	Additional time is required for full implementation. IA will	
(December 5, 2016 Follow-Up)	.5	capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	re-verify during follow-up evaluation.	
IT Equipment		FMD should implement adequate controls to ensure that asset records established in SAP are		
August 21, 2012	17	accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that	Additional time is required for full implementation. IA will	
(December 5, 2016 Follow-Up)	. /	only those items allowed by the capitalization policy are capitalized.	re-verify during follow-up evaluation.	
IT Equipment		FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project		
August 21, 2012	19		Additional time is required for full implementation. IA will	
(December 5, 2016 Follow-Up)	19	Manager for proper completion. FMD should also provide training to Project Managers on the	re-verify during follow-up evaluation.	
		importance of proper completion and instructions on completing the form.  FMD should document Standard Operating Procedures to address the functions of setting up capital		
IT Equipment August 21, 2012	22	assets such as procedures for completing the SAP asset information, compliance with stated	Additional time is required for full implementation. IA will	
(December 5, 2016 Follow-Up)	~~	capitalization thresholds, and processing of Project Closure Authorization Forms.	re-verify during follow-up evaluation.	
(December 3, 2010 Follow-Op)		papitalization thresholds, and processing of Froject Closure Authorization Forms.		

as of June 1, 2021				
Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment	
Follow-Up Review - Information Technology Equipment Audit December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	FAD agrees with IA and the External Auditors recommendation and would evaluate implementation. IA to verify during a future follow-up evaluation.	
Follow-Up Review - Information Technology Equipment Audit December 5, 2016	2	FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.		
2017 Petty Cash Audit & Follow-up Review June 5, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	5	FAD should take the lead to review and determine if the Petty Cash limit of \$50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over \$50).	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.	IA to verify during a future follow-up evaluation.	
2017 Petty Cash Audit & Follow-up Review June 5, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.	IA to verify during a future follow-up evaluation.	
Water Use Efficiency Programs Audit June 5, 2017	1	Turf Removal Programs  While many retail customers received rebates, the range of customers could have been broader.  Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA's service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region's entities by unique characteristics (schools, churches, large lots, etc.).	IA to verify during a future follow-up evaluation.	

as of surier 1, 2021				
Audit Performed	Rec #	Internal Audit Recommendation	Target for Implementation & Comment	
Water Use Efficiency Programs Audit June 5, 2017	2	Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:  • Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items in advance for capitalization in WIP.  • Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects.  • Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to:  • Ensure only capital projects are included  • Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized  • Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.	IA to verify during a future follow-up evaluation.	
Water Use Efficiency Programs Audit June 5, 2017		The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.	IA to verify during a future follow-up evaluation.	
Water Use Efficiency Programs Audit June 5, 2017	4	information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. regionwide information or alternatively (and/or in addition), presenting both the summary and member agency information on the same basis.	IA to verify during a future follow-up evaluation.	
Water Use Efficiency Programs Audit June 5, 2017	5	IEUA may want to consider expanding the "Highlights" commentary and providing subheadings and organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.	IA to verify during a future follow-up evaluation.	
Water Use Efficiency Programs Audit June 5, 2017	6	WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for internal staff to follow.	IA to verify during a future follow-up evaluation.	
Contracts and Procurement Follow-Up August 30, 2017	1	CAP should review the SAP assigned roles and transaction codes and ensure that good internal controls are followed and no conflicts exist. IA recommends CAP consider eliminating or reducing the ability to Create PRs and Receive Goods, for CAP buyers in order to strengthen internal controls and further reduce risks.	IA to verify during a future follow-up evaluation	
Payroll Operations Audit August 30, 2017	1	IA recommends that HR consider evaluating alternatives to the manual files used to maintain employee information, for example: Working with Business Information Systems (BIS) to develop or acquire a self-service portal for employees to make updates and changes to certain information that currently requires a hard-copy document, such as withholding information, beneficiary information, address changes, or for adding or deleting a family member from their policies, and contribution amounts to various accounts. The Agency is in the process of implementing ECMS. HR may want to consider whether the new ECMS would provide an automated approach to maintaining and updating employee information or whether another automated approach would be possible.	IA to verify during a future follow-up evaluation.	
Payroll Operations Audit August 30, 2017	2	As part of the Agency's disaster preparedness effort, IA recommends that HR consider maintaining manual/hard-copy files in fire proof/water proof cabinets.	IA to verify during a future follow-up evaluation.	

Audit Performed Rec # Internal Audit Recommendation Target for Implementation & Comme				
Addit Ferformed	IXCC #		raiget for implementation & comment	
Payroll Operations Audit August 30, 2017	3	FAD should update Standard Operating Procedure No. CR PR-08 to reflect the new payroll bank reconciliation process, communicate the procedure to all department employees and ensure the SOP is in the format outlined in accordance with Agency Policy A-51.  FAD SHOULD ENSURE DATE TECONOMICS ARE PROPERTY AND SHOULD ENSURE DATE TO SH	IA to verify during a future follow-up evaluation.	
Payroll Operations Audit August 30, 2017	4	timely manner to ensure all outstanding and reconciling items are researched, investigated and resolved.	IA to verify during a future follow-up evaluation.	
Payroll Operations Audit August 30, 2017	6	Both HR and FAD should encourage employees with payroll related functions to attend ethics/fraud awareness training specific to their job responsibilities to stay informed about new developments, risks and safeguards (for example, safeguards for potential payroll fraud, safeguarding personnel files and employee confidential information, etc.)	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	1	Agency Policy A-89, Procurement Card Program should be updated to reflect desired internal controls and provide clearer guidelines about the proper use of P-Cards. The policy should provide greater clarity about the purchases that are allowed or not allowed (i.e.: food, restaurant, meals, training registrations, membership payments, etc.). Additionally, the policy should provide instructions for users to follow when there are situations that are unusual and note the additional written justification that is necessary. Lastly, A-89, should direct users to seek CAP's guidance when there is a unique need, keeping the Agency's need in mind and ensuring adequate controls are maintained.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	2	The P-Card Administrator role should be clarified in Policy A-89 and expanded to include greater oversight responsibilities to ensure compliance. The role should include duties to fully utilize the various on-line tools available through US Bank for reports, alerts, training and other controls for reviewing and monitoring activity. Additionally, the P-Card Administrator should provide assistance and give advice on the best procurement method and periodically review statements and identify purchases and transactions that are not aligned with policy and request additional information.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	3	CAP should update Department-specific SOP CAP-0012 to incorporate any changes in Agency Policy A-89 Procurement card Program, including any updates to the P-Card Administrator's role and responsibilities. Additionally, CAP should ensure the SOP CAP-0012 complies with the guidelines and format set forth in Agency Policy A-51.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	4	CAP and FAD should work together to utilize any in-house tools and/or online tools available through US Bank to make the review, approval, reconciliation and upload of P-Card purchases more efficient with adequate oversight.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	5	CAP should take the lead to evaluate the benefits of consolidating credit card programs to utilize P-Cards for all purchases (other than fuel) and to eliminate other vendor-specific credit card or credit programs. At a minimum, the Agency should ensure all Credit Card programs are governed by an approved Agency Policy.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	6	CAP should maximize the use of the US Bank online tools for downloading/reviewing reports, creating blocks and alert notices for unusual activity, streamlining the approval, reconciliation and upload/posting process and training end users and approvers.	IA to verify during a future follow-up evaluation.	
Procurement Card Audit March 1, 2018	7	FAD should evaluate ways for the Agency to increase and/or maximize any rebates received.	IA to verify during a future follow-up evaluation.	
Wire Transfers Audit March 1, 2018	2	FAD should finalize the new SOPs in the format provided in Agency Policy A-51.	IA to verify during a future follow-up evaluation.	

Audit Performed Rec # Internal Audit Recommendation Target for Implementation & Comment				
Audit Performed	Rec #	Internal Audit Recommendation  The Agency should evaluate the cost/benefit of obtaining additional coverage and consider a per	Target for Implementation & Comment	
Wire Transfers Audit March 1, 2018	3	occurrence limit greater than \$2 million to ensure the Agency has adequate insurance coverage to address the Agency's risk tolerance. In addition, to address potential uncovered losses, the Agency should consider reducing the threshold for a bank call-back to any amounts that exceed the Agency's chosen limit for Fraud Transfer Insurance.	IA to verify during a future follow-up evaluation.	
Wire Transfers Audit March 1, 2018	4	FAD should develop standards for documentation of transactions in SAP and a process of reviewing transactions once posted to ensure that the information in the accounting records is consistent and complete.	IA to verify during a future follow-up evaluation.	
Wire Transfers Audit March 1, 2018	5	FAD should document or revise a separate SOP that describes the steps in the wire transfer process for investment transactions to provide guidelines for the processing of investment transactions.	IA to verify during a future follow-up evaluation.	
Inter-fund Transactions Audit August 30, 2018	2	FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.	IA to verify during a future follow-up evaluation.	
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	1	Facilities Management should continue to work with the appropriate departments to make necessary updates, and/or consolidate Agency policies and procedures for Agency vehicles and ensure the revised policy(ies) address refueling and washing procedures, security, safety items, insurance, license requirements, etc. The new and final policy should be approved by Executive Management and made available to all Agency employees for their reference.	Evaluated during May 2021 and now considered closed.	
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	2	Facilities Management should perform regular vehicle inspections on all Agency vehicles. Vehicle inspections should evaluate the overall operational condition of the vehicle and determine whether all safety-related items are current and operational, such as the first aid kit, fire extinguisher, glove compartment contents, flashlight, etc. Inspections should be documented. Additionally, employees should be reminded of their responsibilities for vehicle maintenance through training and/or policy updates.	Evaluated during May 2021 and now considered implemented.	
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures November 29, 2018	3	Facilities Management should work with Finance and Accounting to ensure periodic reconciliations of vehicle records are performed between Agency recordkeeping systems, reports and/or databases, such as SAP (financial system), GIS, etc.	Evaluated during May 2021 and now considered not implemented and restated.	
Accounts Payable Follow-Up Audit May 30, 2019	1	In evaluating access controls over all IEUA staff that have some level of AP authorization, IA noted that some staff members have transferred to other departments at IEUA or to different functions within FAD. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Business Information Systems (BIS) should work with Finance and Accounting Department (FAD) and Human Resources (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include:  - Business Information Systems (BIS) working closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties.  - BIS working with HR to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties.  - BIS determining the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor.	IA to verify during a future follow-up evaluation.	
Accounts Payable Follow-Up Audit May 30, 2019	3	FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and upto-date and includes a verified physical address.	IA to verify during a future follow-up evaluation.	

Audit Performed Rec # Internal Audit Recommendation Target for Implementation & Comment					
Audit Performed	Rec #		Target for Implementation & Comment		
Accounts Payable Follow-Up Audit May 30, 2019	4	FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately. Additionally, vendors created through the conversion process to SAP and never used should be deleted.	IA to verify during a future follow-up evaluation.		
Accounts Payable Follow-Up Audit May 30, 2019	5	FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.	IA to verify during a future follow-up evaluation.		
	ı	T	I		
Voyager Fuel Card Audit May 30, 2019	1	Operations & Maintenance Department should develop and document goals and objectives, Key Performance Indicators (KPIs), and/or other metrics for the Agency's fleet operations for measurement, analysis, tracking and reporting the fleet program's effectiveness. Goals should be aligned with the Division's overall mission and could include cost of fuel, fuel usage/consumption, cost of maintenance, asset value of the fleet by type of vehicle, etc. Goals should be measured, evaluated and updated periodically.	IA to verify during a future follow-up evaluation.		
Voyager Fuel Card Audit May 30, 2019	2	Operations & Maintenance should work with US Bank to evaluate the reporting tools and features that are available to provide useful information about the Agency's fleet to identify inefficiencies, areas of improvement, and instances of unusual card usage where follow-up is be required and reduce potential risks of misuse.	IA to verify during a future follow-up evaluation.		
Voyager Fuel Card Audit May 30, 2019	3	The Fuel Card Administrator role should be clarified and enhanced, either in Agency Policy A-86 and/or other related policy. The Fuel Card Administrator role should be enhanced to include greater oversight roles and responsibilities, to include:  - Responsibilities to maximize the use of online reports and tools available through the US Bank Fleet Commander® Online system.  - Analysis and evaluation reports and communications to provide Operations & Maintenance information about the fuel card program.	IA to verify during a future follow-up evaluation.		
Voyager Fuel Card Audit May 30, 2019	4	Operations & Maintenance should establish a process to periodically review the use of fuel cards and ensure cards no longer needed or used are deactivated to reduce risks to the Agency.	IA to verify during a future follow-up evaluation.		
HR audit: Hiring and Promotions Operations Review December 2, 2019	1	Human Resources should include additional justification information for the final selection made in the recruitment file to close out the recruitment file and ensure it stands alone.	IA to verify during a future follow-up evaluation.		
HR audit: Hiring and Promotions Operations Review December 2, 2019	2	Human Resources should take the lead and work with Business Information Services and determine ways to implement automated workflows for recruitment documents and forms and utilize electronic files.			
HR audit: Hiring and Promotions Operations Review December 2, 2019	3	Human Resources should take the lead to install fireproof and waterproof filing cabinets to safeguard manual personnel, recruitment, and other HR related files, in the event of a disaster.	IA to verify during a future follow-up evaluation.		
HR audit: Hiring and Promotions Operations Review December 2, 2019		Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.	IA to verify during a future follow-up evaluation.		
HR audit: Hiring and Promotions Operations Review December 2, 2019	5	Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.	IA to verify during a future follow-up evaluation.		

Audit Performed	Rec#	Internal Audit Recommendation	Target for Implementation & Comment
HR audit: Hiring and Promotions Operations Review December 2, 2019	6	Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.	IA to verify during a future follow-up evaluation.
HR audit: Hiring and Promotions Operations Review December 2, 2019	7	IA recommends that Human Resources and Contracts and Procurement work together to establish written contracts for all vendors used by HR to document the scope, terms and conditions and prices for the services. The contracts should establish what information is included in the invoices for payment and what information needs to be maintained separately and confidentially.	IA to verify during a future follow-up evaluation.

Recommendations that do not require follow-up at this time:

	Recommendations that do not require follow-up at this time:				
Recycled Water Revenues Audit May 28, 2020	1	IA recommends implementing a process to review and verify recycled water records and processes (including how meters are checked, maintained and calibrated) at the individual contracting agencies to ensure completeness and accuracy of information provided to the Agency as provided in Agency Ordinance #63. An internal or external audit and/or review of contracting agency reporting of recycled water would provide an independent analysis of the information received from the contracting agencies to verify the data reported to the Agency. At a minimum, Planning staff should request additional supporting documentation from the contracting agencies periodically, to verify the information reported. This would potentially prevent, detect and/or correct any discrepancies to minimize any potential risk of error in reporting.	IA to verify during a future follow-up evaluation.		
Recycled Water Revenues Audit May 28, 2020	3	Planning should take the lead to work together with Agency staff and the contracting agencies to develop standardized information reporting. Standardized and automated reports and methods of providing information would create efficiencies, make the process consistent and ensure accuracy.	IA to verify during a future follow-up evaluation.		
Recycled Water Revenues Audit May 28, 2020	4	Engineering should update the Standard Operating Procedure and attached Exhibit #1: Work Instruction for Preparing Recycled Water Billing (last updated in 2015) to provide current detailed instructions and information for recording and reporting the recycled water information received from the contracting agencies.	IA to verify during a future follow-up evaluation.		
Human Resources: Workload Indicators Review May 29, 2020	1	HR should evaluate the Department Workload Indicators as reported in the Agency's Budget document and consider additional and/or different Workload Indicators that provide information about the various activities of the department and ensure they are aligned to the department's goals.	IA to verify during a future follow-up evaluation.		
Human Resources: Workload Indicators Review May 29, 2020	2	HR should document a Standard Operating Procedure or desk procedures to ensure consistency in the data collected and the method in calculating workload indicator results as documented in the Budget Book.	IA to verify during a future follow-up evaluation.		
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020		measure, capture and report and now the indicator aligns with the department's goals and the overall Agency goals and objectives.	IA to verify during a future follow-up evaluation.		
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020	2	HR should re-evaluate the calculation applied for "Training Hours per Employee" to ensure it is capturing the intended type of training. If the intent is to capture all training including training not	IA to verify during a future follow-up evaluation.		

Audit Performed	Rec#	Internal Audit Recommendation	Target for Implementation & Comment
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020	3	HR should take the lead to work with Records Management on the record retention needs of the department and ensure the information in ABRA is managed and follows the recommended record retention guidelines to ensure the Agency complies with any requests and to minimize any potential risks of retaining older personnel records in the ABRA system.	IA to verify during a future follow-up evaluation.
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020	4	HR should reevaluate Skillsoft as a training resource and consider establishing goals and objectives for the utilization of Skillsoft for employee training and development. Additionally, if HR determines Skillsoft is a beneficial training resource, HR should implement plans to increase utilization of Skillsoft.	IA to verify during a future follow-up evaluation.
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020	5	HR should determine the need to either delete or update Agency Policy A-57.	IA to verify during a future follow-up evaluation.

<u>Note:</u> As of June 1, 2021, 10 recommendations highlighted in gray do not require follow-up as the issuance date is within the last 12 months. A follow up can be scheduled sooner, if requested by the Audit Committee, Executive Management and/or the department audited.



# Open Audit Recommendations as of June 1, 2021:



Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2022
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2022
Master Trade Contracts	September 1, 2016	5	FY 2022
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2022
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2023
Water Use Efficiency Programs Audit	June 5, 2017	6	FY 2023
Contracts and Procurement Follow-Up Audit	August 30, 2017	1	FY 2023
Payroll Operations Audit	August 30, 2017	5	FY 2023
Procurement Card Audit	March 1, 2018	7	FY 2023
Wire Transfers Audit	March 1, 2018	4	FY 2023
Inter-fund Transactions Audit	August 30, 2018	1	FY 2024
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	November 29, 2018	3	FY 2024
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
Regional Contract Review – Final Audit Report (planned for implementation with the renegotiation of the Regional Contract.)	December 16, 2015	31	Pending – Renegotiation of the Regional Contract
Total Outstanding Audit Recom	105		





### Total of 74 Outstanding Recommendations Requiring Follow Up Evaluation

- Outstanding Recommendations by Division
  - Finance Administration 37
    Human Resources 20
    Operations 9
    Engineering 8
- Databases listing all outstanding recommendations available to all
  - By Division
  - Show the recommendation and information about what IA needs
  - All audit reports are embedded and available for review by anyone
  - Quarterly reminders and information from IA to managers
- Departments that reached out to IA and closed their respective recommendations
  - External Affairs Garden in Every School ®
  - Engineering Engineering & Construction Management Master Trade Contracts
  - Engineering Planning Water Connection Fee Audit
  - Operations Facilities Management Vehicle Inventory
  - Finance Contracts and Procurement Master Trade Contracts



# INFORMATION ITEM 2E



Date: June 16, 2021

To: The Honorable Board of Directors From: Teresa Velarde, Manager of Internal Audit

Committee: Audit 06/07/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for June 2021

#### **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: the Contracts and Procurement Follow Up Review for recommendations related to the Master Trade Contracts, the Agency Vehicle Operational Follow-Up Audit, along with additional routine audit projects and administrative tasks. IA assisted various departments and requests including review of policies and processes, provided guidance on internal controls and best guidance. Currently, IA has multiple projects in progress and various on-going 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.

#### **Staff's Recommendation:**

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

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

#### **Prior Board Action:**

On June, 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 Internal Audit Department Charters.

#### **Environmental Determination:**

Not Applicable

#### **Business Goal:**

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

#### **Attachments:**

Attachment 1 - Internal Audit Department Quarterly Status Report for June 2021

Board-Rec No.: 21135

#### **Projects Completed This Period**

# <u>Project:</u> Contracts and Procurement Follow-Review of recommendations related to the Master Trade Contracts Audit Report

#### Scope:

The purpose of this follow-up review was to evaluate the implementation status of the five remaining outstanding recommendations from the original 2016 audit. The objectives of the original Master Trade Contracts Audit in 2016 were to evaluate compliance with policies and procedures, evaluate how work is issued, verified, and approved, and to evaluate if processes follow the Agency's procurement policies.

#### **Status:** COMPLETE

As a result of this 2021 review, all five remaining recommendations are now considered implemented or closed. The first recommendation suggested that CAP retain sufficient supporting documentation for the selection process of the contracts and to ensure the communication through the Board Letter be consistent with final contract terms. This recommendation has been satisfied. The second recommendation suggested that CAP work with BIS to implement an automated control utilizing the Agency's enterprise resource system to manage contract spending and contract expiration dates. The third recommendation suggested that CAP work with HR to enhance communications about the Agency's expectations and policies regarding employee ethical responsibilities. The final report submitted under separate cover provides details of the review.

#### **Project:** Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures

#### Scope:

This review focused on evaluating the implementation status of the three recommendations outstanding from the original review completed in 2014 and subsequent first follow up review in 2018. The objectives were to evaluate the processes related to Agency vehicles and determine if operations follow established policies, and there are sufficient controls in place to adequately inspect, inventory and account for Agency vehicles.

#### Status: COMPLETE

Of the three outstanding recommendations remaining, IA found that one recommendation has been closed, one recommendation has been implemented, and one recommendation continues to be in progress and is restated in this report. A recommendation related to making updates to Agency policies is being closed because the Agency is currently working with a consultant to review and make recommendations to all Agency policies. Once the new policies have been updated and finalized, IA will schedule audits to evaluate implementation. One recommendation related to vehicle inspections has been implemented. IA makes additional suggestions to improve current processes as the department moves forward with the new vehicle monitoring tool. Of most important is for the department to document a Standard Operating Procedure. Lastly, the recommendation related to periodically reconciling department inventory records to accountings' records used to valuate and record assets continues to be in progress. Once the two departments meet to discuss and resolve discrepancies identified through this audit, IA will reevaluate and determine the status. *The final report submitted under separate cover provides details of the review.* 

#### Project: Internal Audit Annual Audit Plan

#### Scope:

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

#### Status: COMPLETE

For the FY 2021/22 Annual Audit Plan, IA proposes the following audit projects: Accounts Payable Audit, Electronic Payment Transactions, Information Systems Physical Inventory, in addition to on-going and required projects, such as the annual CAFR review. The Annual Audit Plan is considered a flexible plan and projects can change or other projects with higher risks can take greater priority. Any changes or amendments to the Plan are communicated to the Audit Committee through the Status Report or other amendment document. The final Annual Audit Plan is provided under separate cover.

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

#### Scope:

Post to the main IEUA website IAs Report: The Audit Function & Reference Material.

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 – posted to the IEUA Website

In March 2021, IA completed and submitted 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. At this meeting, the AC requested this report be posted to the Agency's main website for reference and accessibility to all. IA coordinated and completed full posting in May of 2021. *The full report can be accessed here: www.ieua.org* under Transparency.

#### **Projects in Progress**

#### Project: Accounts Payable - Operational and Internal Control Audit

#### Scope:

To evaluate the internal controls in place with regards to accounts payable activities. To evaluate payments are issued only for properly procured and approved expenditures; to evaluate the timeliness and accuracy of invoice receipt, approval, and payment processes. Additionally, to evaluate controls related to the vendor master list.

#### **Status:** In Progress

IA has initiated preliminary work and research for this review. The purpose of this comprehensive audit is to evaluate processes and procedures follow Agency policies. IA will follow up and evaluate the implementation status of the several (24) outstanding recommendations from prior audits, some dating as far back as 2012. Outstanding audit recommendations are in the areas of asset records, project closure forms, petty cash fund, payroll, wire transfer controls, the vendor master records, and standard operating procedures. IA plans to break up this audit into several more subject-specific reviews to ensure there is adequate follow up review in the various areas of accounts payable.

#### **<u>Project:</u>** 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 Defect Elimination 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.

#### 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.

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.

#### Report on Open Audit Recommendations as of June 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 (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2022
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2022
Master Trade Contracts	September 1, 2016	5	FY 2022
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2022
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2023
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Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	FY 2025
Regional Contract Review – Final Audit Report ( planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31	Pending – Renegotiation of the Regional Contract
Total Outstanding Audit Recommendations		105	

<sup>\*</sup>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.

As of June 2021, 105 recommendations remain outstanding:

- o 31 relate to the renegotiation of the Regional Contract,
- 21 relate to upcoming updates to Agency policies which is being facilitated by an outside consultant working with Human Resources Department,
- o 9 recommendations relate to audits completed within the previous 12 months and need additional time for full implementation by the departments.
- o 44 recommendations are eligible for follow up evaluation

#### **Management Requests**

#### **On-going**

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.

#### Special Projects

#### **On-going**

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

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

#### Internal Audit Staffing and Professional Development

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, IA staff attended a 1-hour training called GASB 87 updates on Leases in March 2021. In April 2021, one IA staff member attended Intermediate Governmental Financial Report training offered through California Society of Municipal Officers (CSMFO). Lastly, IA staff also attended a 6-hour webinar on the May Internal Audit Hot Topics and IA Awareness Month Event hosted by the IIA Inland Empire, Los Angeles, and San Diego Chapters in May 2021. 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. 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.

In April 2021, one IA staff member passed the last part of the Institute of Internal Auditor's Certified Internal Auditor examination and successfully achieved full certification as a Certified Internal Auditor (CIA). This is the highest certification that can be achieved in the profession of internal auditing.

The Internal Audit Department is staffed as follows:

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

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

- 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
- Monday, June 6, 2022 Regularly Scheduled Audit Committee Meeting