



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

**MONDAY, AUGUST 30, 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 [lmantilla@ieua.org](mailto:lmantilla@ieua.org) 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.

\*A Municipal Water District

**1. ACTION ITEM**

**A. MINUTES**

Approve Minutes of the June 7, 2021 Audit Committee meeting.

**2. INFORMATION ITEMS**

**A. CONTRACTS AND PROCUREMENT FOLLOW-UP REVIEW OF RECOMMENDATIONS RELATED TO THE MASTER TRADE CONTRACTS AUDIT REPORT (WRITTEN/POWERPOINT) *continued from the June 7, 2021 Audit Committee Meeting***

**B. INTERIM REPORT: ACCOUNTS PAYABLE OPERATIONAL AND INTERNAL CONTROL AUDIT (WRITTEN/POWERPOINT)**

**C. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR AUGUST 30, 2021 (WRITTEN)**

**3. AUDIT COMMITTEE ADVISOR COMMENTS**

**4. COMMITTEE MEMBER COMMENTS**

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

**ADJOURN**

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

**DECLARATION OF POSTING**

I, Laura Mantilla, Executive Assistant of the Inland Empire Utilities Agency, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. to the IEUA Website at [www.ieua.org](http://www.ieua.org) and outside the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, August 26, 2021.



Laura Mantilla

ACTION  
ITEM

1A



**MINUTES  
AUDIT COMMITTEE MEETING  
INLAND EMPIRE UTILITIES AGENCY\*  
VIRTUAL/TELECONFERENCE  
MONDAY, JUNE 7, 2021  
9:00 A.M.**

**COMMITTEE MEMBERS PRESENT via Video/Teleconference**

Steven J. Elie, Chair  
Jasmin A. Hall

**STAFF PRESENT**

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

**STAFF PRESENT via Video/Teleconference**

Christiana Daisy, Deputy General Manager  
Kathy Besser, Executive Manager of External & Government Affairs/AGM  
Randy Lee, Executive Manager of Operations/AGM  
Christina Valencia, Executive Manager of Finance & Administration/AGM  
Javier Chagoyen-Lazaro, Manager of Finance & Accounting  
Robert Delgado, Manager of Operations & Maintenance  
Lucia Diaz, Deputy Manager of Maintenance  
Denise Garzaro, Board Secretary/Office Manager  
Warren Green, Manager of Contracts, Procurement & Risk Services  
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  
Wilson To, Technology Specialist II

**OTHERS PRESENT via Video/Teleconference**

Tiffany Fung, CliftonLarsonAllen LLP  
Travis Hickey, Audit Committee Advisor  
Nitin Patel, CliftonLarsonAllen LLP

Committee Chair Steven J. Elie called the meeting to order at 9:00 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 March 8, 2021 Audit Committee meeting.

- ◆ Recommended that the Board approve the FY 2021/22 Annual Audit Plan; and directed the Manager of Internal Audit to implement the FY 2021/22 Annual Audit Plan; as a Consent Calendar item on the June 16, 2021 Board meeting agenda.

Committee Member Jasmin Hall asked if IEUA plans to conduct a cybersecurity audit and if the Agency has a cybersecurity policy regarding ransomware attacks. General Manager Shivaji Deshmukh stated that staff can provide an update to the Board and present the item at the next Audit Committee meeting. Chair Elie requested the information about cybersecurity insurance be provided during the update.

## **2A – 2E. INFORMATION ITEMS**

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

- ◆ FY 2021/21 Financial Audit – Engagement Communications
- ◆ Agency Vehicle Operational Follow-up Audit – Review of Vehicle Inventory Procedures
- ◆ Contracts and Procurement Follow-Up Review of Recommendations Related to the Master Trade Contracts Audit Report.  
Due to technical issues, Chair Elie recommended this item be continued at the next Audit Committee meeting.
- ◆ Report of Open Audit Recommendations
- ◆ Internal Audit Department Quarterly Status Report for June 2021

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

Audit Committee Advisor Travis Hickey commented on the importance of having Internal Audit to evaluate the functions of the Agency and provide recommendations to improve internal controls.

## **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 9:53 a.m.

Respectfully submitted,

Laura Mantilla  
Executive Assistant

\*A Municipal Water District

**APPROVED: AUGUST 30, 2021**

INFORMATION  
ITEM  
**2A**

**Date:** June 16, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

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

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**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.

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**Staff's Recommendation:**

This is an information item.

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

*Account/Project Name:*

N/A

*Fiscal Impact (explain if not budgeted):*

N/A

**Prior Board Action:**

On 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.

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**Environmental Determination:**

Not Applicable

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**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.

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**Attachments:**

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


Attachment 2 - PowerPoint



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[www.ieua.org](http://www.ieua.org)

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

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

Jasmin A. Hall  
President

Michael E. Camacho  
Vice President

Steven J. Elie  
Secretary/Treasurer

Paul Hofer  
Director

Marco Tule  
Director

Shivaji Deshmukh  
General Manager

### **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.

- **Automated Report:** 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.

- 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.
- Cross-Training: 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.*

### **Acknowledgements**

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

## **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**

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**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.*

## **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.

[illegible]

**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.

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 Agency-wide policy.

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**

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	<u>Conference - Workshop:</u> 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.

**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.

# **Contracts and Procurement Follow-Up Review of Recommendations related to the Master Trade Contracts Audit Report**

**Teresa Velarde**  
Manager of Internal Audit  
June 16, 2021

## 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

# 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**



*Inland Empire Utilities Agency*  
A MUNICIPAL WATER DISTRICT

# Original Recommendation #4:

## 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)

# Original Recommendation #5:

**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: 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

# 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.*



***The Contracts and Procurement Follow-Up Review of recommendations related to the Master Trade Contracts Audit Report 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.***

INFORMATION  
ITEM  
2B

**Date:** September 15, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

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

08/30/21

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

**Subject:** Interim Report: Accounts Payable Operational and Internal Control Audit

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**Executive Summary:**

According to the Fiscal Year (FY) 2021/22 Board-approved Annual Audit Plan, Internal Audit (IA) will perform a comprehensive review of the various areas and activities within the Accounts Payable (AP) functions which falls under the Finance and Accounting Department (FAD). The Accounts Payable Operational and Internal Control Audit will be performed in stages to better focus on the different steps in the overall payment process as there are several departments and Agency employees involved in the process to properly request, procure and approve goods and services, then to assist in the process to pay vendor invoices in a timely manner. The results of IAs evaluation will be documented after each audit area is completed.

For this first update, IA downloaded and analyzed data from the Agency's financial system, including invoice and payment activity for three FYs to evaluate the amount of transactions and review for trends. IA's analysis focused on sorting data by vendor types, payment types, amounts and monthly/annual trends; specifically to determine the timeliness of invoice payments. Additional audit procedures are planned to evaluate the entire payable process. This interim report documents IAs analysis as of August 2021. A final report is planned for December 2021.

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**Staff's Recommendation:**

This is an information item.

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

*Account/Project Name:*

N/A

*Fiscal Impact (explain if not budgeted):*

N/A

**Prior Board Action:**

On June 16, 2021 the Board of Directors approved the Fiscal Year 2021/22 Annual Audit Plan.

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters. The Charters require a quarterly Status Report.

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**Environmental Determination:**

Not Applicable

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**Business Goal:**

The Interim Report: Accounts Payable Operational and Internal Control 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 that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.


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**Attachments:**

Attachment 1 - Interim Report: Accounts Payable - Operational and Internal Control Audit  
Attachment 2 - PowerPoint

DATE: August 20, 2021

TO: Shivaji Deshmukh

  
FROM: Teresa V. Velarde  
Manager of Internal Audit

**SUBJECT: Interim Audit Report:  
Accounts Payable Operational and Internal Control Audit**

### **Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) is in the process of completing an operational audit of the Accounts Payable functions. The review is being performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2021/22 Annual Audit Plan and the IAD's Charter. This report is an Interim Audit Report to provide an update and information related to the ongoing review. Additional audit procedures are planned before finalizing the review.

### **Audit Objectives:**

The objectives of the audit are to:

- Evaluate the Accounts Payable processes
- Determine compliance with Agency policies and Standard Operating Procedures
- Evaluate internal controls
- Evaluate the timeliness and accuracy of invoice receipt, approval, and payments
- Determine if payments were for properly procured and approved expenditures
- Evaluate the efficiency of the various stages/steps in the invoice payment process

### **Audit Techniques Applied:**

Audit techniques include:

- Interviews with Agency Staff
- Review of policies and procedures
- Analysis of financial transactions
- Review of supporting documents
- Review of disbursement processes and controls
- Review of the various steps in the process to receive invoices and goods and
- Review of the approval processes in place for invoice payment
- Review of the department's goals and objectives
- Consideration of prior internal audit findings and recommendations

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

### **Audit Results – Executive Summary**

This is an interim audit report to provide an update on the audit work gathered to-date. Additional audit procedures and analysis are planned before the audit can be finalized (discussed later in this report). At this time, IA has identified preliminary observations and preliminary recommendations (discussed later in this report). This is not a final audit report. IA will continue to work with all Agency staff involved in the process of paying invoices, prior to finalizing the audit.

### **Acknowledgements**

IA would like to extend our appreciation to staff for their cooperation and assistance during this review and look forward to the continued collaboration.

### **Discussions with Management**

IA discussed and provided the interim audit results with the General Manager, the Executive Manager of Finance and Administration/Assistant General Manager, the Manager of Finance and Accounting and Accounting Supervisor. IA will continue to work with staff to finalize all results for the final audit report and will incorporate their comments in the final audit report.

For questions and additional information, contact the Internal Audit Department.

*The Interim Report: Accounts Payable Operational and Internal Control 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 that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.*

### **Background**

The Finance and Accounting Department (FAD) is responsible for recording and maintaining the Agency's financial information and is separated into two main areas: (i) general accounting and financial reporting, and (ii) strategic planning and budgeting. FAD provides financial budgeting and reporting of the Agency's programs and activities to internal and external stakeholders. Additionally, FAD provides strategic planning to meet the Agency's future financial needs for capital projects, securing the lowest borrowing and financing costs, and managing the Agency's investment portfolio. FAD is responsible for the following: general accounting and financial reporting, Accounts Payable (AP), Accounts Receivable, Fixed Asset Accounting, Payroll, and various other financial analysis and responsibilities. The Accounts Payable section under FAD is responsible for processing and issuing payments to vendors for approved procurements.

### **Department Staffing**

According to the IEUA's Organization Chart (last updated July 6, 2021), the AP section operates under the Finance and Administration Division. Staffing for FAD is as follows:

<b>Position</b>	<b>Number</b>
<b>Manager of Finance and Accounting</b>	2
<b>Budget Officer</b>	Vacant
<b>Senior Financial Analyst</b>	3
<b>Financial Analyst I</b>	Vacant
<b>Principal Accountant</b>	1
<b>Accounting Supervisor</b>	1
<b>Senior Accountant</b>	2
<b>Accountant II</b>	3
<b>Accounting Technician II</b>	2
<b>Accounting Technician II</b>	Vacant
<b>Administrative Assistant</b>	1
<b>Total</b>	<b>15</b>

### **Invoice Payment Process**

The process to pay Agency vendor invoices for goods and services is an Agency-wide responsibility. The process to ensure vendor invoices are paid accurately and on time is the responsibility of various Agency employees. It begins with the request and procurement process, the departments will request goods and services needed for Agency business; approvers must review and evaluate the proper procurement method and supporting information prior to approving items for purchase; once items are received, there must be a verification process to certify goods and services were in fact received as agreed to under the procurement instruments; finally, the Finance and Accounting Department processes and issues payments for vendor invoices. Only after vendor invoices are fully verified and approved for payment, by the appropriate staff, can AP process the payments.

The process to pay an invoice is as follows: (Still working with staff to confirm processes).

**Invoice payment process for Goods/Services purchased with Purchase Orders:**

- 1) Purchase Requisition (PR) is created to procure goods (i.e., chemicals, parts, tools, filters, etc.).
- 2) Upon approval, the PR turns into a Purchase Order (PO) and goods are ordered from the vendor.
- 3) Goods are either received at a centralized location (warehouse) or directly by the requestor (non-centralized).
- 4) Quantities received are verified by the respective staff – the actual receivers of the goods/services.
- 5) For Services, the work performed is verified and received by the designated Project Managers.
- 6) Invoices
  - Hardcopy invoices mailed to the Agency are:
    - When received through regular mail, are received and date-stamped by the front desk staff,
    - Picked up by AP staff who scan and catalog/save to Agency's shared drive for AP to process.
  - Electronic invoices received to the AP email address are electronically stamped when received and saved to the Agency's shared drive by AP staff.
- 7) All invoices are scanned/entered into SAP and processed as a "Held Document." (New step as of July 2021)
- 8) Receiving documents are forwarded to administrative assistant staff or responsible PMs to perform the corresponding receiving function in SAP.
- 9) After receiving has been performed and completed in SAP, AP staff can perform a 3-way match (compare the PO, Receiving/Shipping documents, and Invoice).
- 10) AP staff initiate payment process in SAP.
- 11) Payment is issued through hard copy check or Automated Clearing House (ACH) or wire transfer.

**Invoice payment process for Goods/Services purchased with Non-Purchase Orders:**

- 1) Goods/Services are procured, the information is entered in SAP.
- 2) Invoices
  - Hardcopy invoices mailed to the Agency are:
    - When received through regular mail, are received and date-stamped by the front desk staff,
    - Picked up by AP staff who scan and catalog/save to Agency's shared drive for AP to process.
  - Electronic invoices received to the AP email address are electronically stamped when received and saved to the Agency's shared drive by AP staff.
- 3) All invoices are scanned/entered into SAP and processed as a "Held Document". (New step as of July 2021)
- 4) AP staff emails the scanned invoice to the Administration staff requesting account coding and approval.
- 5) Approvals are obtained via DocuSign, Adobe Acrobat features, or manual signatures
- 6) Approved/signed invoices are scanned and returned via email to AP staff.
- 7) The approved document (if electronic) is attached to the transaction in SAP and/or is sometimes reprinted by AP to attach to payment document information for supervisory review.
- 8) AP staff initiate payment process in SAP.

Attachment 1 provides a flowchart for the process to pay an invoice. IA is working with staff to develop the non-PO process flowchart.

### **Accounts Payable Monitoring Report**

In 2013, to address the issue of late payments, IA suggested a report should be developed to track and evaluate AP activities and measure metrics. IA worked closely with BIS to develop an SAP Crystal Report called ***Accounts Payable Monitoring Report***. The purpose of the AP Monitoring report is to download all the AP transactions for a specific period to facilitate reviewing and sorting information about invoice activity including vendor account number, vendor name, document date and number, (payment) type/assignment, amount, posting date, invoice receive date, date paid, payment terms, and calculate invoices and amounts outstanding between 30-120 days. The report is driven by the *Posting Date* entered by staff into SAP. To gather the preliminary information and analysis described in this report, IA used the AP Monitoring Report.

### **Disbursement Activity – Total Payments Processed**

The table below summarizes the disbursements activity for the last three fiscal years as reported monthly through the Board's *Report on General Disbursements*:

<b><u>Payment Type</u></b>	<b><u>Fiscal Year</u></b>		
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Vendor Checks	\$ 69,128,535	\$ 55,584,569	\$8,268,233
Vendor Automated Clearing House (ACH)	44,508,476	60,853,833	151,859,186
Vendor Wire Payments *	77,734,952	75,462,704	76,230,085
Worker Comp Checks	117,171	252,087	141,545
Payroll Net-Pay Directors	72,421	79,372	81,371
Payroll Net-Pay Employees	20,290,520	21,253,780	21,924,316
<b>Totals</b>	<b>\$211,852,074</b>	<b>\$ 213,486,347</b>	<b>\$ 258,504,736</b>

\*Payments for Federal/State Agencies, Public Employees Retirement System, Metropolitan Water District (MWD), etc.

Due to Covid-19 restrictions and work changes, AP has worked closely with vendors to pay by ACH, and the majority of the vendors are paid using this method. In FY 2020/21, AP converted 498 IEUA vendors and 90 IERCA vendors from paper check to ACH. Going-forward, AP will continue to work with more vendors to transition to electronic payments. This explains the change in the total of checks issued in FY20/21.

### **Disbursement Activity – PO, Non-PO Invoices and Payment Types**

IA used the AP Monitoring Report (Crystal Report), downloaded from SAP to compile and analyze data about the invoices paid. The tables below summarize the volume of transactions and dollar amounts processed for the past four fiscal years:

	Overview of the Purchase Order and Non-Purchase Order Payments/Invoices (regardless of vendor type)							
	FY 2017/18		FY 2018/19		FY 2019/20		FY2020/21 <sup>(1)</sup>	
	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount
PO Invoice	8,469	\$ 75,481,557	8,848	\$ 80,045,565	8,736	\$ 72,457,269	7,643	\$129,579,429
Non-PO Invoice	6,787	134,973,394	6,481	124,583,675	6,460	129,908,951	5,888	119,275,735
<b>Totals</b>	<b>15,256</b>	<b>\$ 210,454,951</b>	<b>15,329</b>	<b>\$ 204,629,240</b>	<b>15,196</b>	<b>\$ 202,366,221</b>	<b>13,531</b>	<b>\$248,855,164</b>

(1) Data as of August 4, 2021. Invoices were identified by Payment type; PO Invoice (VI) and Non-PO Invoice (VM)  
Final totals will be available after financial reporting is complete. Final totals will be reported in the final audit report.

	Invoices broken down by Type of Vendors							
	Fiscal Year							
	2017/18		2018/19		2019/20		2020/21 <sup>(1)</sup>	
	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount
Vendors	10,672	\$178,836,444	10,970	\$172,920,991	10,870	\$166,665,345	9,305	\$206,710,499
Utilities	1,451	9,700,951	1,419	10,401,220	1,412	12,759,679	1,447	16,872,989
Retirees	1,453	416,983	1,570	452,630	1,657	471,305	1,739	481,017
Obligations (taxes, employee benefits, etc.)	840	21,255,538	734	20,665,959	735	22,311,809	651	24,062,108
Employee Reimbursements	803	226,987	584	170,596	473	140,752	320	61,711
Other – CDA, Water Softener, IERCA	37	18,048	52	17,847	49	17,331	69	666,840
<b>Total</b>	<b>15,256</b>	<b>\$210,454,951</b>	<b>15,329</b>	<b>\$204,629,240</b>	<b>15,196</b>	<b>\$202,336,221</b>	<b>13,531</b>	<b>\$248,855,164</b>

(1) = Data as of August 4, 2021. Invoices were identified by Payment type; PO Invoice (VI) and Non-PO Invoice (VM)

## Observations and Recommendations

This first part of the comprehensive operational review did not analyze payments made to retirees, obligations owed/due (i.e., federal/state taxes, medical, dental, retirement, life insurance agencies, etc.), employee reimbursements and other reimbursements. This review will only evaluate vendor invoices.

### **Observation 1: Late Payments**

***There may be various reasons within the accounts payable process that causes invoices not being paid by the invoice due date and/or within the vendor payment terms.***

**Late payments** occur when the payment is submitted to the vendor after the invoice due date. Even if vendors allow a “grace period” (additional time for payment to arrive to the vendor without penalizing the Agency) the payment is considered late.

### **Payment terms**

Vendors set the payment terms at Net 10, Net 30, Net 45, Net 60, or other; the most common being Net 30. This means that the invoice is technically due and should be paid within 30 days of the invoice date.

### **Prior audit findings related to late invoice payments**

In 2010, IA completed the first Accounts Payable Operational Audit and identified that approximately 50% of the invoices tested during that audit, were paid late. A subsequent follow up audit in 2011 and 2013 revealed similar findings.

IA’s analysis of late payments is summarized in the table below:

Late Payment Analysis for Vendor (POs) and Utilities (Non-POs) Payments								
Payment Status <sup>(1)</sup> :	FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21 <sup>(2)</sup>	
	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices
On Time	6,507	54%	7,143	58%	6,785	55%	6,855	64%
Late	5,616	46%	5,246	42%	5,497	45%	3,897	36%
<b>Totals</b>	<b>12,123</b>	<b>100%</b>	<b>12,389</b>	<b>100%</b>	<b>12,282</b>	<b>100%</b>	<b>10,752</b>	<b>100%</b>

- (1) To calculate the payment status of the invoice, IA first calculated the number of days paid after the due date. Then, IA compared the column called Doc Date to Date paid (AP Monitoring Report) to the vendor payment terms. If the information in the Doc Date to Date paid column was greater than the payment terms, the invoice was determined to be “Late” or if the information in the Doc Date to Date paid column was less than the payment terms, the invoice is considered “On Time”.
- (2) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may be invoices that are due/outstanding that have not yet been paid, and these figures are subject to change as financial information is not yet finalized.

Of the invoices paid late, IA further analyzed the number of days an invoice was ***paid late*** (***paid after the invoice due date***).

Number of Invoices Paid Late by Extent of Days Late Compared the Invoice Due Date and the Date Paid to calculate Number of Days Paid Late (after the Invoice Due Date)				
Number of Invoices paid After the Invoice Due Date	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21 <sup>(2)</sup>
1-30 days	3,689	3,909	3,752	2,477
31-60 days	1,200	806	1,071	832
61-90 days	414	269	394	351
91-120 days	131	112	96	119
121-150 days	51	49	53	45
151-180 days	59	26	32	21
181 days – 365 days	65	70	68	47
365 days or more	7	5	31	5
<b>Total</b>	<b>5,616</b>	<b>5,246</b>	<b>5,497</b>	<b>3,897</b>
Average Number of days paid late	31 days	27 days	33 days	32 days
Least number of days paid late	1 day	1 day	1 day	1 day
Highest number of days paid late	559 days	509 days	1,323 days	642 days

- (1) To determine the number of invoices paid after the due date and the range of days, IA calculated this information using the Date Paid and the Due Date based on the established Payment terms.
- (2) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may be invoices that are due/outstanding that have not yet been paid.

The table below, further breaks down the invoices that were paid *after the invoice due date but paid within the vendors' potential grace period*.

Invoices that were paid after the Due Date and could fall within the Vendor's Grace Period				
Number of Invoices paid After the Invoice Due Date	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21 <sup>(1)</sup>
1-5 days	890	965	934	586
6-10 days	765	808	702	526
11-15 days	818	924	810	596
Totals	2,473	2,697	2,443	1,708

- (1) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may be invoices that are due/outstanding that have not yet been paid.

## Grace Period

The “grace period” provides for additional time for the invoice payment to arrive to the vendor’s correct processing department. As long as the payment arrives within the grace period, even if received after the invoice due date, the payment would not be considered late. It is unknown if all vendors offer a “grace period”, as each vendor may have different terms. The grace period is not recorded on the Monitoring Report or the invoice. This information can be obtained by contacting the vendors directly.

### **Possible reasons for late payments, cited by FAD in 2010, 2011 and 2013**

According to prior IA reports, FAD stated there are two contributors to late payments: 1) Invoice format (i.e., forum in which invoices are received: hardcopy, email attachments, and forwarded from Agency staff) and 2) Invoice approvals. FAD noted that these two items are beyond AP's control. Additionally, FAD noted, at that time, that the Agency's position is to pay at the due date or shortly thereafter to maximize the potential interest earnings, which led to occasional late payments as noted in previous IA reports.

### **Potential Reasons for Current Late Payments**

Reasons for late payments include the following (listed in no particular order) that can delay payment. Most of these reasons will be evaluated during the remainder of the audit.

- The receiving process is not performed in a timely manner, which can create delays in processing and paying the invoice by the invoice due date.
- The invoice was not provided to AP in a timely manner to be able to process by the invoice due date. Either not mailed to AP or held up by a department.
- There may be a question regarding goods or services or an ongoing dispute with the vendor.
- There may be an issue with ensuring timely manager/supervisor approvals on invoices, this does not allow accounting to initiate the payment process.
- Inaccurate or incomplete information: account coding or PO numbers
- Not having available funds, which requires additional research and approval.
- Staff Workload assignments and other duties and tasks performed.
- Staffing shortages (i.e., staff absences: vacation, medical, retirements, etc.).
- Other anomalies or extenuating circumstances: Global Pandemic, interrupted processes, and staff working remote, systems and technical difficulties, etc.

### **Credit Holds**

In discussions with Agency staff, it was observed that the Agency is sometimes placed on "*credit hold*". IA has worked closely with various departments to discuss processes and review data to gather examples of when the Agency was placed on credit hold and understand the impact to business operations, and identify possible efficiencies and areas for improvement.

A vendor will place their customer on ***Credit Hold*** when they are consistently late in making payments, exceeded their credit limit, and/or identified as a risk. By placing a credit hold on the customer's account, it prevents credit purchases, and new orders will be declined.

The table on the following page provides a list of examples and impacts of vendors mentioned where Credit Holds have been a problem in the past. IA will further research and evaluate these claims.

**Dollar Amounts paid to the following Vendors for the corresponding Fiscal Year**

<b><u>Vendor Name</u></b>	<b><u>Nature of the Goods purchased and/or Services rendered</u></b>	<b><u>Payment Method</u></b>	<b><u>2017/18</u></b>	<b><u>2018/19</u></b>	<b><u>2019/20</u></b>	<b><u>2020/21<sup>(1)</sup></u></b>	<b><u>Potential Impact to the Agency if the merchant business account was suspended and/or placed on Credit Hold</u></b>
Amazon Business	Business and computer related items and accessories: paperware, iPhone chargers, tools (pressure washer, LED Emergency Light), microscope slides, dichlorination tablets, mouse, laptop bag, and many others	Vendor ACH	\$ 67,888	\$45,778	\$64,360	\$54,833	Items and/or tools necessary to perform daily tasks would be unavailable, and impact business operations.
Aqua Ben Corporation	Chemicals: Hydrofloc	Vendor ACH	\$1,405,352	\$1,688,362	\$1,832,150	\$1,828,998	Chemicals needed for treating wastewater would not be available, which may result in a violation of the Agency's Wastewater permit and impact the public health.
California Water Technologies	Chemicals: Ferric Chloride Solution	Vendor ACH/Check	\$701,964	\$637,114	\$709,284	\$944,242	
Cummins Pacific LLC	Parts	Vendor ACH/Check	\$3,580	\$6,846	\$10,697	\$9,890	Potentially not having the required tools, parts and supplies for maintenance, repair, and updates to Agency equipment
Griswold Industries	Parts	Vendor ACH/Check	\$198	\$24,825	\$32,020	\$27,882	
Hach Company	Parts	Vendor ACH/Check	\$103,352	\$235,815	\$141,238	\$213,107	
Harrington Industrial Plastics LLC	Parts	Vendor E-payables?	\$103,392	\$115,952	\$103,581	\$84,835	
Hasco Oil Company Inc	Parts	Vendor ACH	\$49,852	\$53,007	\$71,076	\$58,156	
Home Depot Credit Services	Equipment, tools, supplies etc.	Vendor ACH/Check	\$39,082	\$35,315	\$41,893	\$36,690	Business office functions could not be performed without copiers, printers, and/or scanners. .
Konica Minolta Business Solutions	Monthly maintenance invoice for Copier/Printer Services	Vendor ACH/Check	\$71,252	\$89,521	\$91,219	\$10,405	
KVAC Environmental services	Hazmat Disposal Removal Services and/or clean up	Vendor ACH	\$57,790	\$153,077	\$143,112	\$29,548	Potentially not having these services can impact Agency operations and impact the environment.
McMaster Carr Supply Co	Parts	Vendor ACH	\$61,472	\$61,733	\$29,287	\$63,219	See the potential impact listed for other parts suppliers already identified in the table
Napa Genuine Parts Company	Parts – filters, air, oil, batteries, etc	Vendor ACH	\$17,665	\$10,839	\$14,170	\$10,922	
Olin Corp	Chemicals: Sodium Hypochlorite	Vendor ACH	\$1,314,139	\$1,761,479	\$1,961,645	\$2,171,652	See the potential impact listed for other chemical vendors.
Palm Auto Detail	Car Wash Services for Agency Fleet Vehicles	Vendor ACH	\$29,387	\$62,267	\$29,433	\$31,050	Interior and Exterior of the Agency vehicles would not be washed and cleaned, which safety hazard for employees and a risk to the Agency.
Pacific Courier Service	Courier Services – Messenger and Laboratory	Vendor ACH/Check	42,310	47,487	46,912	46,018	There would be no courier services for the pickup and/or delivery of the required samples

<u>Vendor Name</u>	<u>Nature of the Goods purchased and/or Services rendered</u>	<u>Payment Method</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21(1)</u>	<u>Potential Impact to the Agency if placed the merchant business account was suspended and/or on Credit Hold</u>
RealTech Controls	LED lights for Agency Trucks	Vendor Check	\$-	\$-	\$348	\$-	See the potential impact listed for other parts suppliers already identified in the table.
ReadyRefresh by Nestle	5-Gallon Bottle Water, cups, and cooler rental	Vendor ACH/Check	\$9,063	\$8,872	\$8,607	\$8,662	Agency facilities would not have water to drink for staff, visitors, contractors, etc.
Red Wing Shoe	Safety Shoes for Employees	Vendor ACH/Check	\$4,068	\$12,331	\$9,899	9,479	Staff does not have the required safety shoes to perform their job duties. This can be a safety hazard and risk to the Agency.
RSD	Parts	Vendor ACH/Check	\$39,470	\$18,649	\$43,737	\$65,675	See the potential impact listed for other parts suppliers already identified in the table.
Smart & Final	Food and Supplies	Vendor Check	\$3,631	\$-	\$-	\$-	Agency facilities would not have the necessary items.
Staples Contract & Commercial LLC	Office Supplies (envelopes, post-its, pens, notebooks, planners, etc.)	Vendor ACH	\$-	\$-	\$-	3,138	Business office functions could not be performed without the proper office supplies.
Statewide Traffic Safety and Signs	Traffic Control Services	Vendor ACH/Check	\$38,720	\$120,880	\$32,065	\$24,023	Staff would not have the services to control traffic necessary to maintain and service the Agency's regional sewer system. Impact is to employees safety and a risk to the Agency.
Supply Solution	Supplies: toilet paper, paper towels, disinfectant spray, soap, raid, broom handles, etc.	Vendor Check	\$-	\$-	\$17,101	\$15,625	Agency facilities would not have the necessary day-to-day supplies.
Univar Solutions USA Inc	Chemicals: Sodium Bisulfite	Vendor ACH	\$176,213	\$294,494	\$176,696	\$356,926	See the potential impact listed for other chemical vendors.
Urimage	Business Cards and other Agency-related forms	Vendor Check	\$3,824	\$4,445	\$6,524	\$1,886	Business office functions could not be performed without the proper supplies and forms.

(1) = Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may be invoices that are due/outstanding that have not yet been paid.

### **Department-Specific SOPs**

IA asked the various departments for their department-specific Standard Operating Procedures (SOPs) related to processing vendor payments. Currently, FAD does not have formal, documented SOPs, but the important processes are documented in the Go Live documents, and worksheets have been developed with print screens.

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, 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.

FAD has committed to the development of formal, documented SOPs for their processes, and this is anticipated to be completed by the end of calendar year 2021. IA is available to assist with reviewing and providing recommendations and suggestions.

**Additional Audit Procedures to be performed by IA to finalize the audit report:**

This is an interim report that reports only on the timeliness of vendor payments from an overall level. In this report, IA did not test individual transactions. Listed below are other procedures that IA plans to perform by the completion of the final audit report in December 2021, they are as follows:

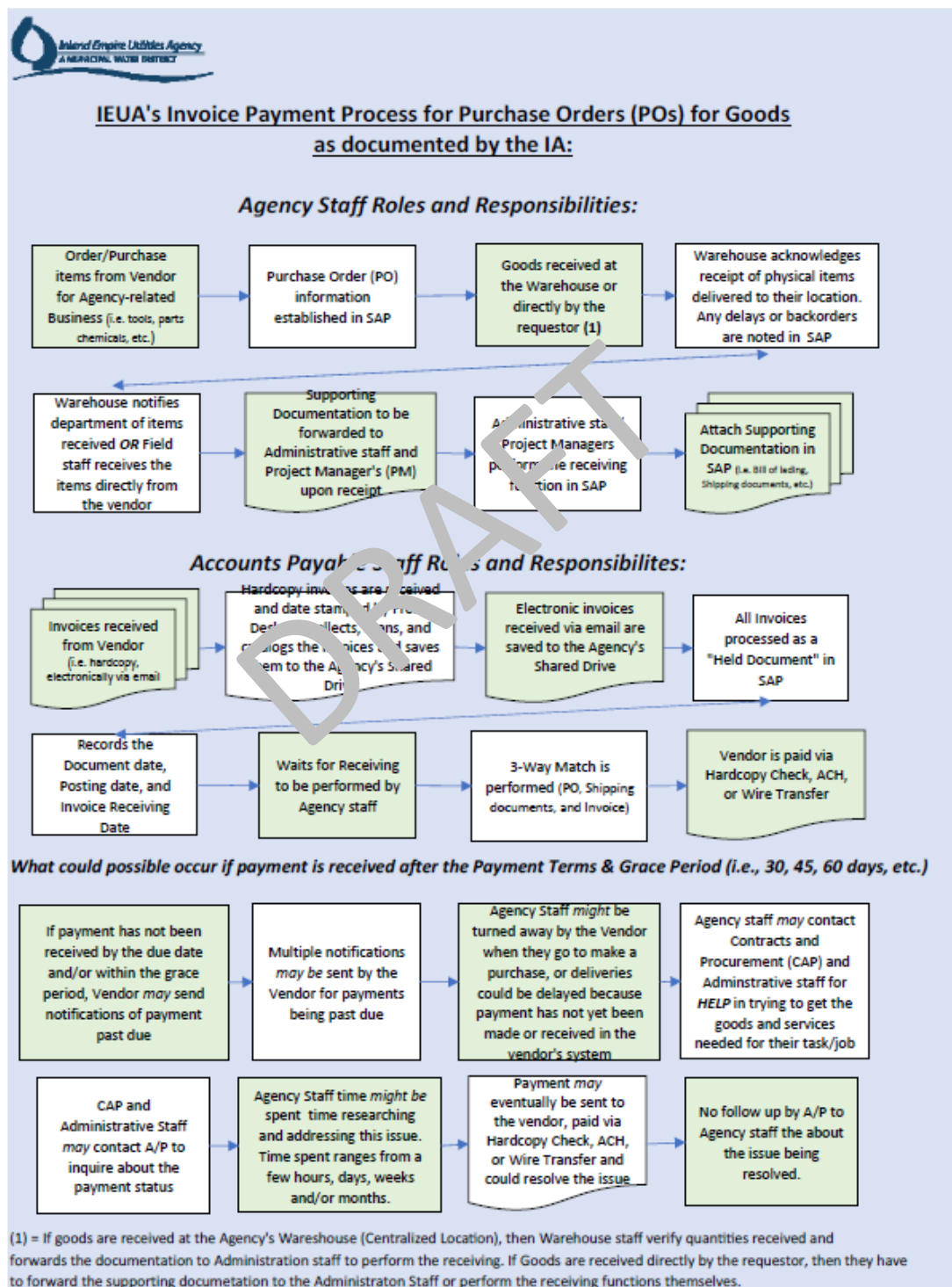
- Walk-through (observations) of the processes with AP staff
- Contact the Agency's vendors to obtain a greater understanding on the Agency's performance and business relationship
- Perform a comparable survey to compare how the Agency's current invoice and payment process is to other agencies within the industry.
- Evaluate SAP reports for usefulness to use as monitoring reports.
- Evaluate various financial transactions to review approvals, workflow and payment processes.

**Preliminary Interim Audit Recommendations:**

- FAD consider developing of Performance Indicators and metrics for AP functions.
- FAD should evaluate staffing levels to support the Agency's volume of financial transactions.
- FAD and Operations departments should continue with the on-going check-in meetings with key stakeholders about the processes related to paying invoices and continue to discuss challenges and identify areas for efficiencies.
- FAD and all departments with responsibilities of receiving, processing and approving invoices should document department-specific SOPs for key activities that are performed by the department, and these SOPs/desk procedures should be signed by the department management, and readily available and accessible by all staff.
- Consider expanding the P-Card program to consolidate the various credit cards and fully implement and utilize mobile features, scanning receipt, mobile workflows and reporting functions (refer to IAs PCard Audit).
- Work with BIS to ensure needed information is generated in reports to help monitor transactions and monitor payments. Utilize SAP reports to monitor financial transaction activity to have visibility of the payment processes (receiving status, invoice aging, pending payment, etc.)

## Attachment 1

### Flowchart of the Invoice Payment Process for Purchase Order (PO) Invoices



# Accounts Payable Operational & Internal Controls Audit Interim Report

Teresa Velarde  
Manager of Internal Audit  
August 30, 2021

# Accounts Payable Operational & Internal Control Audit

## Audit Scope

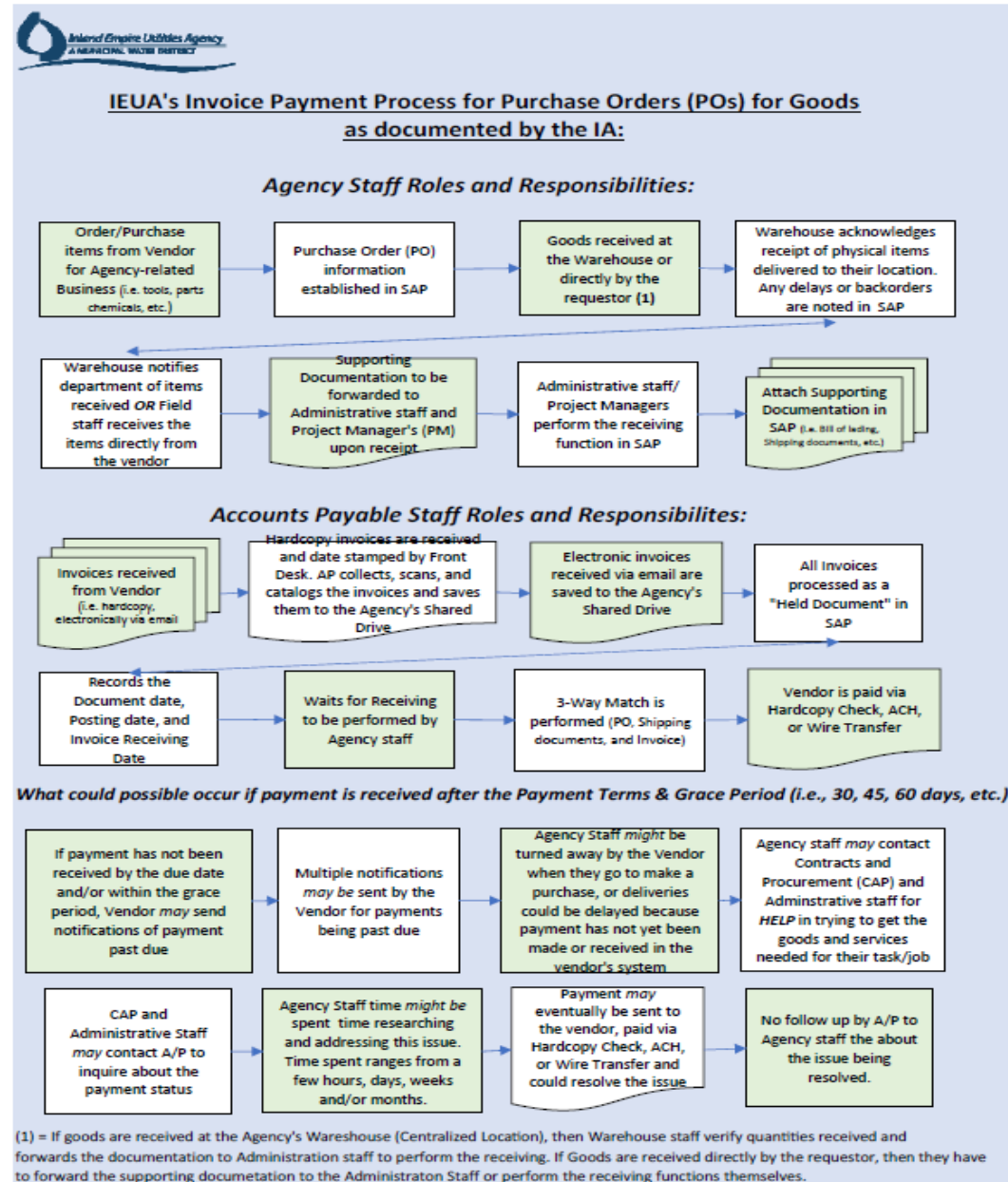
### Audit Objectives:

- Evaluate the Accounts Payable processes
- Determine compliance with Agency policies and Standard Operating Procedures
- Evaluate internal controls
- Evaluate the timeliness and accuracy of invoice receipt, approval, and payments
- Determine if payments were for properly procured and approved expenditures
- Evaluate the efficiency of the various stages/steps in the invoice payment process

### Audit Techniques Applied:

- Interviews with Agency Staff
- Review of policies and procedures
- Analysis of financial transactions
- Review of supporting documents
- Review of disbursement processes and controls
- Review of the various steps in the process to receive invoices and goods and
- Review of the approval processes in place for invoice payment
- Review of the department's goals and objectives
- Consideration of prior internal audit findings and recommendations

# Flowchart for Payment Processing



# Accounts Payable Staffing as of July 19, 2021:

<u>POSITION</u>	<u>NUMBER</u>
Manager of Finance and Accounting	2
Budget Officer	Vacant
Senior Financial Analyst	3
Financial Analyst I	Vacant
Principal Accountant	1
Accounting Supervisor	1
Senior Accountant	2
Accountant II	3
Accounting Technician II	2
Accounting Technician II	Vacant
Administrative Assistant	1
Total	15

IEUA's Organization Chart as of July 6, 2021

# Accounts Payable – All payments

	<u>Fiscal Year</u>		
<u>Payment Type</u>	2018/19	2019/20	2020/21
Vendor Checks	\$ 69,128,535	\$ 55,584,569	\$ 8,268,233
Vendor Automated Clearing House (ACH)	44,508,476	60,853,833	151,859,186
Vendor Wire Payments *	77,734,952	75,462,704	76,230,085
Worker Comp Checks	117,171	252,087	141,545
Payroll Net-Pay Directors	72,421	79,372	81,371
Payroll Net-Pay Employees	20,290,520	21,253,780	21,924,316
<b>Total</b>	<b>\$211,852,074</b>	<b>\$ 213,486,347</b>	<b>\$ 258,504,736</b>

*\*Payees include Federal/State Agencies, Public Employees Retirement System, Metropolitan Water District (MWD), etc.*

*This report is provided to the Board every month through the Report of General Disbursements.*

# PO & Non-PO Payments

<b>Overview of the Purchase Order and Non-Purchase Order Payments/Invoices (regardless of vendor type) Fiscal Years</b>								
	2017/18		2018/19		2019/20		2020/21 <sup>(1)</sup>	
	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount	No. of Invoices Processed	Dollar Amount
PO Invoice	8,469	\$ 75,481,557	8,848	\$ 80,045,565	8,736	\$ 72,457,269	7,643	\$129,579,429
Non-PO Invoice	6,787	134,973,394	6,481	124,583,675	6,460	129,908,951	5,888	119,275,735
<b>Totals</b>	<b>15,256</b>	<b>\$ 210,454,951</b>	<b>15,329</b>	<b>\$ 204,629,240</b>	<b>15,196</b>	<b>\$ 202,366,221</b>	<b>13,531</b>	<b>\$248,855,164</b>

Source: SAP BI Launchpad Reports - Accounts Payable Monitoring Report

(1) Data as of August 4, 2021

# PO & Non-PO Invoices By Type of Vendor

	Fiscal Year							
	2017/18		2018/19		2019/20		2020/21 <sup>(1)</sup>	
Type of Vendor/ Transaction Processed	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount	No. of invoices processed	Dollar Amount
Vendors (PO Invoices)	10,672	\$ 178,836,444	10,970	\$ 172,920,991	10,870	\$ 166,665,345	9,305	\$206,710,499
Utilities	1,451	9,700,951	1,419	10,401,220	1,412	12,759,679	1,447	16,872,989
Retirees	1,453	416,983	1,570	452,630	1,657	471,305	1,739	481,017
Obligations (taxes, insurance, PERS, union dues, medical/dental, etc.) <sup>(2)</sup>	840	21,255,538	734	20,665,959	735	22,311,809	651	24,062,108
Employee Reimbursements <sup>(2)</sup>	803	226,987	584	170,596	473	140,752	320	61,711
Other – CDA, Water Softener, IERCA <sup>(2)</sup>	37	18,048	52	17,847	49	17,331	69	666,840
<b>Total</b>	<b>15,256</b>	<b>\$ 210,454,951</b>	<b>15,329</b>	<b>\$ 204,629,240</b>	<b>15,196</b>	<b>\$ 202,336,221</b>	<b>13,531</b>	<b>\$ 248,855,164</b>

Source: SAP BI Launchpad Reports - Accounts Payable Monitoring Report

(1) Data as of August 4, 2021

(2) Non-PO Items

# Preliminary Findings

## Observation 1: Late Payments

*There may be various reasons within the accounts payable process that causes invoices not being paid by the invoice due date and/or within the payment terms.*

- IA prior AP Audits in 2010, 2011 and 2013 identified that invoices were paid late
- *Accounts Payable Monitoring Report*

# Preliminary Findings

Late Payment Analysis for Vendor (POs) and Utilities (Non-POs) Payments								
Fiscal Year								
2017/18			2018/19		2019/20		2020/21 <sup>(2)</sup>	
Payment Status <sup>(1)</sup> :	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices
On Time	6,507	54%	7,143	58%	6,785	55%	6,855	64%
Late	5,616	46%	5,246	42%	5,497	45%	3,897	36%
Totals	12,123	100%	12,389	100%	12,282	100%	10,752	100%

- (1) To calculate the payment status of the invoice, IA first calculated the number of days paid after the due date. Then IA compared the column called Doc Date to Date paid (AP Monitoring Report) to the vendor payment terms. If the information in the Doc Date to Date paid column was greater than the payment terms, the invoice was determined to be “Late” or if the information in the Doc Date to Date paid column was less than the payment terms, the invoice is considered “On Time”.
- (2) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may invoices that are due/outstanding that have not yet been paid.

# Accounts Payable Days Late

Number of Invoices Paid Late by Extent of Days Late Compared the Invoice Due Date and the Date Paid to calculate Number of Days Paid Late (after the Invoice Due Date)				
Number of Invoices paid <i>After the Due Date</i>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21 <sup>(2)</sup>
1-30 days	3,689	3,909	3,752	2,477
31-60 days	1,200	806	1,071	832
61-90 days	414	269	394	351
91-120 days	131	112	96	119
121-150 days	51	49	53	45
151-180 days	59	26	32	21
181 days – 365 days	65	70	68	47
365 days or more	7	5	31	5
<b>Total</b>	<b>5,616</b>	<b>5,246</b>	<b>5,497</b>	<b>3,897</b>
Average Number of Days an invoice is paid Late	31 days	27 days	33 days	32 days
After the due date, least number of days paid late	1 day	1 day	1 day	1 day
After the due date, highest number of days paid late	559 days	509 days	1,323 days	642 days

- (1) To determine the number of invoices paid after the due date and the range of days, IA calculated this information using the Date Paid and the Due Date based on the established Payment terms.
- (2) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and there may be invoices that are due/outstanding that have not yet been paid

# Accounts Payable

## Days Late – possible grace period

Invoices that were paid after the Due Date possibly fall within the Vendor's Grace Period				
Number of Invoices paid After the Due Date	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21 <sup>(1)</sup>
1-5 days	890	965	934	586
6-10 days	766	808	702	526
11-15 days	818	924	810	596
Totals	2,473	2,697	2,446	1,708

- (1) Data is as of August 4, 2021. For FY 2020/21, FAD is in the process of closing the financial records and
- there may be invoices that are due/outstanding that have not yet been paid.

If vendors provide or allow a “grace period”, the grace period indicates that if a payment is received, by the vendor, within 1 to up to 15 days after the invoice due date, then the invoice is not considered late by the vendor. The table below, further breaks down the invoices that were paid *after the invoice due date but potentially paid withing the vendor's grace period*, and may not be considered “late” by the vendor

# Preliminary Recommendations

- FAD consider developing of Performance Indicators and metrics for AP functions.
- FAD should evaluate staffing levels to support the Agency's volume of financial transactions.
- FAD and Operations departments should continue with the on-going check-in meetings with key stakeholders about the processes related to paying invoices and continue to discuss challenges and identify areas for efficiencies.
- FAD and all departments with responsibilities of receiving, processing and approving invoices should document department-specific SOPs for key activities that are performed by the department, and these SOPs/desk procedures should be signed by the department management, and readily available and accessible by all staff.
- Consider expanding the P-Card program to consolidate the various credit cards and fully implement and utilize mobile features, scanning receipt, mobile workflows and reporting functions (refer to IAs PCard Audit).
- Work with BIS to ensure needed information is generated in reports to help monitor transactions and monitor payments. Utilize SAP reports to monitor financial transaction activity to have visibility of the payment processes (receiving status, invoice aging, pending payment, etc.)

# Additional Procedures to be performed by IA

- Walk-through (observations) of the processes with AP staff
- Contact the Agency's vendors to obtain a greater understanding on the Agency's performance and business relationship
- Perform a comparable survey to compare how the Agency's current invoice and payment process is to other agencies within the industry.
- Evaluate SAP reports for usefulness to use as monitoring reports.
- Evaluate various financial transactions to review approvals, workflow and payment processes.

INFORMATION  
ITEM  
2C

**Date:** September 15, 2021

**To:** The Honorable Board of Directors

**Committee:** Audit

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

08/30/21

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

**Subject:** Internal Audit Department Quarterly Status Report for August 30, 2021

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**Executive Summary:**

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

During this quarter, along with additional routine audit projects and administrative tasks, Internal Audit (IA) staff gathered preliminary data and information for the comprehensive Accounts Payable Operational and Internal Control Audit. IA assisted various departments and requests including review of policies and processes, provided guidance on internal controls and best guidance. IA continues to assist with requests for review of Agency policies and procedures, and provide recommendations to improve internal controls. The attached Quarterly Status Report provides details.

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**Staff's Recommendation:**

This is an information item.

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

*Account/Project Name:*

N/A

*Fiscal Impact (explain if not budgeted):*

N/A

**Prior Board Action:**

On June 16, 2021 the Board of Directors approved the Fiscal Year 2021/22 Annual Audit Plan.

On December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters. The Charters require a quarterly Status Report.

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**Environmental Determination:**

Not Applicable

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**Business Goal:**

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

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**Attachments:**

Attachment 1 - Internal Audit Department Status Report for August 30, 2021

# Internal Audit Department

## Quarterly Status Report for August 30, 2021

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### *Projects Completed This Period*

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**Project:**            **Interim Audit Report: Accounts Payable Operational and Internal Control Audit**

**Scope:**

The objectives of the audit are to:

- Determine compliance with Agency policies and Standard Operating Procedures
- Evaluate internal controls
- Evaluate the timeliness and accuracy of invoice receipt, approval, and payments
- Determine if payments were for properly procured and approved expenditures

**Status:**            **IN PROGRESS**

As part of the Fiscal Year 2021/22 Board-approved Annual Audit Plan, Internal Audit (IA) plans to perform a review of key areas and activities in the Accounts Payable (AP) function within the Finance and Accounting Department (FAD). This review will be performed in multiple stages, IA will document a report after the completion of each area reviewed.

IA has worked closely with several Agency Departments to obtain an understanding of the current accounts payable processes, including FAD, Business Information Systems (BIS), Contracts and Procurement (CAP), Asset Management, various Agency Managers/Supervisors and many other internal customers/stakeholders.

IA downloaded the *Accounts Payable Monitoring Report* to analyze invoice and payment data and metrics for the previous three fiscal years. IAs analysis include finding the total number of invoices paid on time or late, the number of days invoices that were paid after the due date and other metrics. At this time, the focus of the analysis was specific to Vendors and Utilities and did not include any other type of payments. IA's analysis is documented in the Interim Report. Additional audit procedures IA plans to complete include:

- Walk-throughs of the processes with AP staff
- Interview internal and external stakeholders to understand the process
- Perform a comparable agency survey to compare the Agency's invoice processes
- Analyze additional reports available in the Agency's ERP system
- Analyze various financial transactions
- Research/review policies and procedures related to accounts payable operations.

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

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**Project:**            **Fiscal Year 2020-21 Bi-Annual Warehouse Physical Inventory**

**Scope:**

IA observed the annual physical inventory at the warehouse. The purpose of the annual physical inventory is to validate the total inventory asset dollar amount posted to the financial statements and determine if sufficient controls are in place to safeguard inventory.

**Status:**            **COMPLETE**

IA observed the physical count at the Agency's Warehouse located at Regional Plant Number 1. For the FY 2020/21 Inventory Count, a total of 31,567 units were counted over a three-day period. Inventory was valued at \$1,409,366, 1,365 items had discrepancies during the first round of counts, 34 items which were the items with the highest quantity and/or dollar value were recounted. The overall accuracy rate of the inventory was 99.27% (units) and 99.87% (dollar amount). These results are considered excellent and acceptable results for an annual inventory. Additionally, CliftonLarsonAllen (CLA) LLP, the Agency's external financial auditors, performed a separate spot check as part of their annual financial audit. No issues were noted by CLA.

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## Internal Audit Department Quarterly Status Report for August 30, 2021

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**Project:**        **Internal Audit Memorandum: Process for the Addition and Disposal of Assets**  
                         **Re: Agency Vehicle Operational Follow-up Audit report, dated May 27, 2021**

**Scope:**

To provide additional guidance and recommendations related to ensuring Agency Vehicle asset records are reported accurately as recommended under the Agency Vehicle Operational Follow-up Audit report.

**Status:**        **COMPLETE**

On May 27<sup>th</sup>, 2021, IA finalized the Agency Vehicle Operational Follow-up Audit report. One recommendation was provided related to the Agency's asset records. The recommendation stated that there should be documented policies or procedures to provide guidance about the proper methodology for adding/removing assets to ensure they are properly recorded and accounted for in the Agency's financial and asset records.

In June 2021, IA met with five Agency departments and took the lead to draft the discussion for the process to add/remove assets and document an initial draft procedure. The group decided that Asset Management would take the lead to see this procedure is finalized with the various departments' input. Agency staff involved in this process agreed there is a need to document a formal process/policy to ensure the discrepancies in the asset records do not occur.

IA documented a formal internal memo and circulated to all the departments involved. IA also included an initial outline of an appropriate reconciliation process. It is up to the departments involved to complete, finalize, and implement the procedure. IA's role in this process was limited to completing the audit, discussing the audit findings, and facilitating meetings. Audit Standards require IA maintains independence; therefore, developing and/or writing any final Agency policies and procedures, would be a violation of the Internal Auditing Standards and the Internal Audit Department Charter. IA continues to be available to assist with evaluations and discussions of policies.

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### *Projects in Progress*

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

**Scope:**

To evaluate the internal controls in place with regards to accounts payable activities. To evaluate processes and procedures follow Agency policies. 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. Finally, IA will follow up and evaluate the implementation status of the 24 outstanding recommendations from prior audits, some dating as far back as 2013. Outstanding recommendations are in the areas of asset records, project closure forms, petty cash fund, payroll, wire transfer controls, vendor master records, and standard operating procedures.

**Status:**        **In Progress**

IA has initiated preliminary work and research for this review. IA plans to break up this audit into several subject-specific reviews to ensure there is adequate review in all areas. An Interim Audit Report is presented under a separate cover that highlights the background information about the Accounts Payable processes. This first review provides information about the invoice metrics. A final report is anticipated in December 2021. Additional reports will be issued as other areas are evaluated.

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## Internal Audit Department Quarterly Status Report for August 30, 2021

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

**Scope:**

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 avoid disruption to 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.

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**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 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.*

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## Internal Audit Department Quarterly Status Report for August 30, 2021

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**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.*

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**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.

On July 26, 2021, ISS initiated an inventory of *Technology assets* assigned to Agency staff. The purpose of the inventory is to update asset records of Technology equipment issued through the department. A technology asset inventory assists in ensuring financial reporting is accurate and assists in maintaining physical accountability of the assets. Technology assets include: desktop computers, laptops, monitors, printers, docking stations, tablets, mobile phones, Jetpacks, and other computer peripherals.

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

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

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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.

## Internal Audit Department

### Quarterly Status Report for August 30, 2021

**Status: On-going**

As of August 2021, there are 67 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
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
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
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	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
<b>Total Outstanding Audit Recommendations</b>		<b>98</b>	

*\*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 August 2021, 98 recommendations remain outstanding:

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

## Internal Audit Department Quarterly Status Report for August 30, 2021

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### *Management Requests*

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#### **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. Additionally, staff assists with interviews, document evaluations and discussions when asked and time permits. 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 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.

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### *Special Projects*

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#### **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.

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### *Internal Audit Staffing and Professional Development*

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

During this quarter, IA staff attended virtual trainings provided by the Institute of Internal Auditors, CSMFO and other training hosted by the Agency's Human Resources Department.

The Internal Audit Manager and Senior Auditor are members of the governing board of the Inland Empire Chapter of the IIA. The governing board sets direction for the chapter. 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.

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## Internal Audit Department Quarterly Status Report for August 30, 2021

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The Internal Audit Department is staffed as follows:

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

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- *Monday, 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*
  - *Monday, September 12, 2022 - Regularly Scheduled Audit Committee Meeting*
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