



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

**MONDAY, DECEMBER 6, 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 AB361 AND RESOLUTION NO. 2021-11-1, ADOPTED BY THE IEUA BOARD OF DIRECTORS ON NOVEMBER 17, 2021, IEUA BOARD AND COMMITTEE MEETINGS WILL CONTINUE TO BE CONDUCTED THROUGH TELECONFERENCE IN AN EFFORT TO PROTECT PUBLIC HEALTH AND PREVENT THE SPREAD OF COVID-19. THERE WILL BE NO PUBLIC LOCATION AVAILABLE FOR ATTENDING THE MEETING IN PERSON.

The public may participate and provide public comment during the meeting by dialing into the number provided above. Comments may also be submitted by email to the Recording Secretary Laura Mantilla at lmantilla@ieua.org prior to the completion of the Public Comment section of the meeting. Comments will be distributed to the Board of Directors.

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 August 30, 2021 Special Audit Committee meeting.

B. **IEUA FISCAL YEAR (FY) 2020/21 AUDITED ANNUAL COMPREHENSIVE FINANCIAL REPORT**

Staff recommends that the Committee/Board:

1. Approve the Annual Comprehensive Financial Report for fiscal year ended June 30, 2021;
2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties; and
3. Approve the inter-fund loan of up to \$2,000,000 from Recycled Water Fund to Recharge Water Fund to support the Recharge Master Plan Update execution while completing State Revolving Fund loan agreements.

C. **INTERNAL AUDIT DEPARTMENT CHARTER AND AUDIT COMMITTEE CHARTER**

Staff recommends that the Committee/Board:

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

2. **INFORMATION ITEMS**

A. **ACCOUNTS PAYABLE OPERATIONAL AND INTERNAL CONTROL AUDIT REPORT – REVIEW OF PROCURE TO PAY PROCESSES FOR CHEMICALS (WRITTEN/POWERPOINT)**

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

3. **AUDIT COMMITTEE ADVISOR COMMENTS**

4. **COMMITTEE MEMBER COMMENTS**

5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

ADJOURN

Declaration of Posting

I, Laura Mantilla, Executive Assistant of the Inland Empire Utilities Agency*, a Municipal Water District, hereby certify that, per Government Code Section 54954.2, a copy of this agenda has been posted at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA and on the Agency's website at www.ieua.org at least seventy-two (72) hours prior to the meeting date and time above.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Laura Mantilla at (909) 993-1944 or lmantilla@ieua.org, 48 hours prior to the scheduled meeting so that IEUA can make reasonable arrangements to ensure accessibility.

ACTION
ITEM

1A



**MINUTES
SPECIAL AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
VIRTUAL/TELECONFERENCE
MONDAY, AUGUST 30, 2021
9:00 A.M.**

COMMITTEE MEMBERS PRESENT via Video/Teleconference

Steven J. Elie, Chair
Paul Hofer

STAFF PRESENT

Shivaji Deshmukh, General Manager
Laura Mantilla, Executive Assistant
Nolan King, Network Administrator
Deborah Berry, Manager of Finance & Accounting

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
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, Acting Executive Assistant
Kenneth Monfore, Manager of Asset Management
Sapna Nangia, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT via Video/Teleconference

Travis Hickey, Audit Committee Advisor

Committee Chair Steven J. Elie called the meeting to order at 9:00 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.

Due to technical difficulties, the meeting was paused and resumed at 9:18 a.m. Chair Elie again provided 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. ACTION ITEM

The Committee:

- ♦ Approved the minutes of the June 7, 2021 Audit Committee meeting.

2A – 2C. INFORMATION ITEMS

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

- ◆ Contracts and Procurement Follow-Up Review of Recommendations Related to the Master Trade Contracts Audit Report *continued from the June 7, 2021 Audit Committee Meeting*
- ◆ Interim Report: Accounts Payable Operational and Internal Control Audit
- ◆ Internal Audit Department Quarterly Status Report for August 2021

3. AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey stated that improving the current accounts payable process will involve a large effort and added that the Agency needs to ensure checks and balances are in place.

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 9:57 a.m.

Respectfully submitted,

Laura Mantilla
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 6, 2021

ACTION
ITEM

1B

Date: December 8, 2021

To: The Honorable Board of Directors

Committee: Audit

SD
From: Shivaji Deshmukh, General Manager

12/06/21

Executive Contact: Javier Chagoyen-Lazaro, Acting Exec Manager of Finance & Admin/AGM

Subject: IEUA Fiscal Year (FY) 2020/21 Audited Annual Comprehensive Financial Report

Executive Summary:

The Annual Comprehensive Financial Report (ACFR, formerly referred to as the "CAFR") for fiscal year ended June 30, 2021, was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by Clifton Larson Allen LLP (CLA.) Based on their audit and testwork results, CLA found the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information as of June 30, 2021, and the respective changes in financial position, and cash flows thereof in accordance with accounting principles generally accepted in the United States (U.S. GAAP). As such, CLA issued an unmodified (clean) opinion.

Staff's Recommendation:

1. Approve the Annual Comprehensive Financial Report for fiscal year ended June 30, 2021;
2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;
3. Approve inter-fund loan of up to \$2,000,000 from Recycled Water Fund to Recharge Water Fund to support the Recharge Master Plan Update execution while completing State Revolving Fund loan agreements; and
4. Authorize the General Manager to execute the inter-fund loan.

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

Account/Project Name:

Not Applicable

Fiscal Impact (explain if not budgeted):

There is no impact on the Agency's FY 2021/22 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services Fund under Professional Services.

Prior Board Action:

On December 16, 2020, the Board of Directors approved the Comprehensive Annual Financial Report for FY 2019/20 reviewed by the Audit Committee on December 09, 2019.

On March 17, 2021, the Board approved Contract No. 4600003005 with Clifton Larson Allen LLP for financial auditing and single audit services, for three fiscal years beginning in FY 2020/21, with the option to extend two additional fiscal years.

Environmental Determination:

Not Applicable

Business Goal:

The IEUA FY 2020/21 Annual Comprehensive Financial Reports are consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the fiscal year activity and the net position of the different programs of the Agency.

Attachments:

Attachment 1 - Background

Exhibit A - FY 2020/21 Audited Annual Comprehensive Financial Report (in Substantive Completed Form)

Attachment 2 - PowerPoint

Attachment 3 - Promissory Note for Inter-fund Loan Between the Recycled Water Fund and the Recharge Water Fund

Background

Subject: IEUA Fiscal Year (FY) 2020/21 Audited Annual Comprehensive Financial Report (ACFR)

FY 2020/21 Annual Comprehensive Financial Report

The Agency's Annual Comprehensive Financial Report (ACFR) for fiscal year ended June 30, 2021, was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various Agency funds and account groups. Disclosures are included within the ACFR to enable the reader to gain an understanding of the Agency's financial activities. Exhibit A is a copy of the Agency ACFR in substantially final form.

FY 2020/21 Financial Highlights

Combined revenues and other funding sources for the fiscal year totaled \$296,617,000, an increase of \$38,739,622 compared to the prior fiscal year. The following table presents a comparison of revenues and other funding sources by category for fiscal years 2019/20 and 2020/21.

Combined Revenues and Other Funding Sources by Category - All Funds

For the Fiscal Year Ended June 30, 2021

(With Comparative Totals for the Fiscal Year Ended June 30, 2020)

Revenue & Other Funding Sources	2020/21		2019/20		Increase/(Decrease) from 2019/20	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	\$ 91,325,416	31%	\$ 88,034,511	34%	\$ 3,290,905	4%
Water Sales	45,561,349	15%	40,767,990	16%	4,793,359	12%
Recycled Water Sales	18,094,729	6%	15,348,685	6%	2,746,044	18%
Interest Income	3,011,265	1%	4,229,595	2%	(1,218,330)	(29)%
Property Tax Receipts	67,134,938	23%	55,613,070	22%	11,521,868	21%
Water Connection Fees	5,699,920	2%	8,048,141	3%	(2,348,221)	(29)%
Wastewater Capital Connection Fees	36,732,365	12%	24,259,070	9%	12,473,295	51%
Other Non-operating Revenues	6,390,462	2%	16,075,581	6%	(9,685,119)	(60)%
Capital Grants	22,666,556	8%	5,500,735	2%	17,165,821	312%
Total Revenues & Contributions	\$ 296,617,000	100%	\$ 257,877,378	100%	\$ 38,739,622	15%

Service Charges

Increase is primarily due to an increase in the number of EDU units reported by contracting agencies.

Water Sales

Increase is due to the withdrawal of 23,000 AF of Dry Year Yield Conjunctive Use (DYY CUP) water by member agencies and a three percent rate increase from Southern California Metropolitan Water District (SCMWD.)

Property Tax Receipts

Increase is primarily due to higher assessed property values and the year over year increase from the Agency's share of the Redevelopment Agencies liquidation proceeds.

Wastewater and Water Connection Fees

Connection fees to the regional water and wastewater systems were higher than the prior fiscal year. Wastewater connections fees were \$36.7 million, with 5,281 new units compared to 3,435 units and \$24.3 million in the prior fiscal year. The higher number of new connections is primarily due to improving building activities in FY 2020/21 as compared to prior year. Water connection fees were \$5.7 million in FY 2020/21 compared to \$8.0 million in FY 2019/20.

Other Non-operating Revenues

Decrease is due to primarily to one-time events in 2019/20 related to LIBOE settlement received by the Agency, and an easement sale to the Chino Preserve Development Corporation.

Capital Grants

Increase is due to Federal Principal Forgiveness grant (PFG) as well as grant receipts for the South Archibald Trichloroethylene (TCE) Plume Cleanup Project.

Combined expenses for fiscal year ended June 30, 2021 totaled \$193,930,356, a decrease of \$224,743, compared to the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2021/20 and 2019/20.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2021
(With Comparative Totals for the Fiscal Year Ended June 30, 2020)

Expense Category	2020/21		2019/20		Increase/(Decrease) from 2019/20	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Water Purchases	\$ 45,561,349	22%	\$ 40,479,758	21%	\$ 5,081,591	13%
Wastewater Collection	8,965,048	4%	9,188,554	4%	(223,506)	(2)%
Wastewater Treatment	22,548,656	12%	20,958,634	11%	1,590,022	8%
Wastewater Disposal	10,778,250	6%	11,077,003	6%	(298,753)	(3)%
Operations and Maintenance	5,974,752	3%	5,113,227	3%	861,525	17%
Administration and General	44,066,872	23%	43,207,892	22%	858,980	2%
Depreciation and Amortization	36,819,224	19%	37,614,865	19%	(795,641)	(2)%
Interest on Long-Term Debt	13,883,835	7%	7,629,807	4%	6,254,028	82%
Other Non-Operating Expenses	5,332,370	3%	18,885,359	10%	(13,552,989)	(72)%
Total Expenses	\$ 193,930,356	99%	\$ 194,155,099	100%	\$ (224,743)	(0.1)%

The Agency's statement of net position for fiscal year (FY) ended June 30, 2021, reflects \$875 million, an increase of \$103 million compared to the prior fiscal year.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2020/21 were 71,347-acre feet (AF) compared to 64,835 AF reported in FY 2019/20, an increase of 6,512 AF. The increase is mainly due to an increase in deliveries under SCMWD conjunctive use Dry Year Yield (DYY) program.

Funding of Employee Retirement Liabilities

Consistent with the Board policy, the Agency makes contributions to fund the pension unfunded liabilities and other post-employment benefits (OPEB). Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of \$31.5 million for pension and \$16.0 million for OPEB have been made through fiscal year ended June 30, 2021.

As of June 30, 2020, based on the most recent actuarial valuation date, the OPEB plan is 100 percent funded with an actuarial accrued asset of \$160,184.

The net pension liability measured as of June 30, 2020, using valuation date of June 30, 2019, was 82.3 percent funded at \$40.3 million, in accordance with GASB 68. At June 30, 2021, the Agency had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) increased by 55 percent in FY 2020/21 compared to FY 2020/19. WIP total cost decreased to \$197.6 million from \$92.3 million mainly due to the construction of the RP-5 expansion.

Interfund transfers

Inter-fund transfers are used to transfer funds between Agency Funds to support debt service, capital and operations and maintenance costs. One example is the transfer of water connections fees initially recorded in the Recycled Water fund and transferred to other fund to support eligible capital and water use efficiency projects. The individual transactions offset one another and do not impact the overall net position of the Agency, with the receiver fund recording an increase and sender fund recording a decrease in net position.

In FY 202/21, inter-fund transfers of \$22.3 million were made to support debt service requirements, the Agency's pro-rata share of groundwater recharge O&M costs, and the allocation of water and wastewater connection fees to support capital project costs based upon information defined in 2015 rate and fee studies. The following tables summarize the Transfers In (Table 1) and Transfer Out (Table 2) by type and between Major and Non-Major funds.

Table 1. FY 2019/20 Transfers In

	Transfer In							
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	-	271,390	2,538,591	-	-	455,800	-	3,265,781
Total Capital Contributions	8,511,422	6,447,980	-	747,898	1,980,696	8,060	909,088	18,605,144
Operations Support	-	-	-	-	55,646	411,000	-	466,646
Total	8,511,422	6,719,370	2,538,591	747,898	2,036,342	874,860	909,088	22,337,571

Table 2. FY 2019/20 Transfers Out

	Transfer Out							
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin. Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	3,118,474	147,307	-	-	-	-	-	3,265,781
Total Capital Contributions	9,210,095	8,511,422	836,172	-	-	-	47,455	18,605,144
Operations Support	-	51,862	412,892	-	-	-	1,892	466,646
Total	12,328,569	8,710,591	1,249,064	-	-	-	49,347	22,337,571

Debt Service Interfund Transfer \$3.3 million

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

For Fiscal Year 2020/21, Wastewater Capital fund supported bond debt service for the 2017A Refunding Bonds in the Recycled Water fund, and for the 2020A Refunding Revenue Bonds recorded in the Groundwater Recharge fund.

Capital Interfund Transfer \$18.6 million

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

Projects are assigned to the fund that will benefit from the investment. In some cases, where a project will benefit multiple funds, the project is assigned to a single fund to effectively track and monitor project budget and costs throughout its lifecycle. For these projects, actual expenditures are allocated amongst the funds based on their benefit share at the end of the fiscal year. In Fiscal Year 2020/21, interfund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the RP-5 Expansion project.

Additionally, capital projects that support common Agency-wide activities are recorded in the Administrative Services fund. For Fiscal year 2020/21 interfund transfers to the Administrative Service fund from the Wastewater Capital, Recycled Water, and Non-Reclaimable Wastewater funds supported projects, including roofing improvements to the Agency main buildings, and enhancement to the Agency's computer infrastructure network and cybersecurity.

The 2020 engineering rate study included the allocation of water and wastewater connection fees amongst eligible projects recorded in various Agency funds. Interfund transfers are used to allocate connection fees amongst eligible projects based on actual expenditures and funding sources.

In Fiscal Year 2020/21 water connection fees initially recorded in the Recycled Water fund supported projects like the Water Bank, the Chino Basin Program review and analysis, and water planning initiatives recorded in the Water Resources fund, as well as a small portion of the Recharge Master Plan Update (RMPU) and Administrative Services fund project costs.

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

Operation Support Interfund Transfer \$0.47 million

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

Interfund Loan

To support cash flow needs for the implementation of the Recharge Master Plan Updates projects, the Recharge Water Fund requires an interfund loan pending receipt of State Revolving Fund Loan proceeds from the State Water Resources Control Board. The Recycled Water Fund will lend the

Recharge Water Fund an amount not to exceed \$2 million, as of June 30, 2021, with interest at the annual average LAIF Rate for a period of one year following the execution of the promissory note.

External Auditors' Independent Audit

The Agency's independent audit firm, Clifton Larson Allen LLP (CLA), performed the annual financial audit. CLA issued an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2021, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements. CLA found no material deficiency in internal controls over financial reporting.

Fiscal Year 2020/21 is the first audit completed by CLA in accordance with the contract approved by the Board of Directors on June 11, 2021, for three fiscal years beginning in FY 2020/21, including the option to extend the contract two fiscal years. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with Office of Management and Budget (Single Audit).

Internal Audit Department Review

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

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

Government Financial Officers Association (GFOA) CAFR Award

For the past twenty-one years, the Agency has applied for and received the GFOA CAFR Award for excellence in financial reporting. The deadline to submit the FY 2020/21 CAFR is December 31, 2021.

The IEUA FY 2020/21 Comprehensive Annual Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different



Annual Comprehensive Financial Report Fiscal Year Ended June 30, 2021

Deborah Berry
Manager of Finance and Accounting
December 8, 2021

FY 2020/21 Financial Highlights

- **Increased total net position by \$103 million:**
 - Operating activities: (\$19) million
 - Non-operating activities: \$99 million
 - Capital Grants: \$23 million
- **Interfund transfers \$22.3 million**
(Note 15 to Financial Statements):
 - \$3.3 million Debt service support
 - \$18.5 million Capital support
 - \$0.5 million Operations and Maintenance support
- **Total net position as of 6/30/21 \$875 million:**
 - \$374 million net investment in capital assets
 - \$309 million restricted assets
 - \$192 million designated / unrestricted assets
- **Interfund loan of up to \$2 million**
 - From the Recycling Water Fund to the Recharge Water Fund, to support RMPU cash flow, until SRF loans agreements are completed. FY 2020/21 loan \$1.0 million.

FY 2020/21 Revenues & Expenses

Total Revenues \$296 Million

Operating revenue:

• Water Sales	\$46
• Service Charges	\$91
• Recycled Water Sales	<u>\$18</u>
Total Operating Revenue	<u>\$155</u>

Non-Operating revenue:

• Property Tax	\$67
• Connection Fees	\$43
• Capital Grants	\$23
• Other nonoperating revenues	<u>\$9</u>
Total Non-Operating Revenue	<u>\$141</u>

Total Expenses & Change in Net Position \$296 Million

Operating expense:

• Water Purchases	\$46
• Wastewater Treatment	\$41
• O&M and Support Services	\$50
• Depreciation and Amortization	<u>\$37</u>
Total Operating Expense	<u>\$174</u>

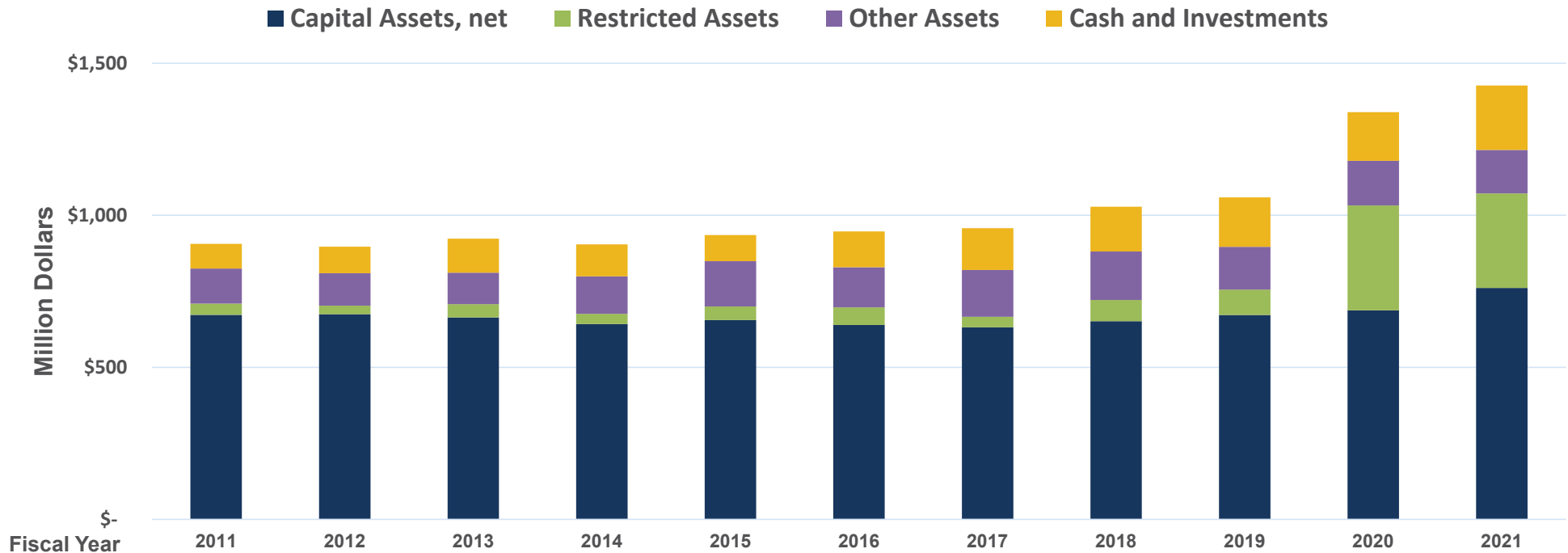
Non-Operating Expense:

• Interest on long term debt	\$14
• Other nonoperating expenses	<u>\$5</u>
Total Non-Operating Revenue	<u>\$ 19</u>

Change in Net Position:	\$103
--------------------------------	--------------

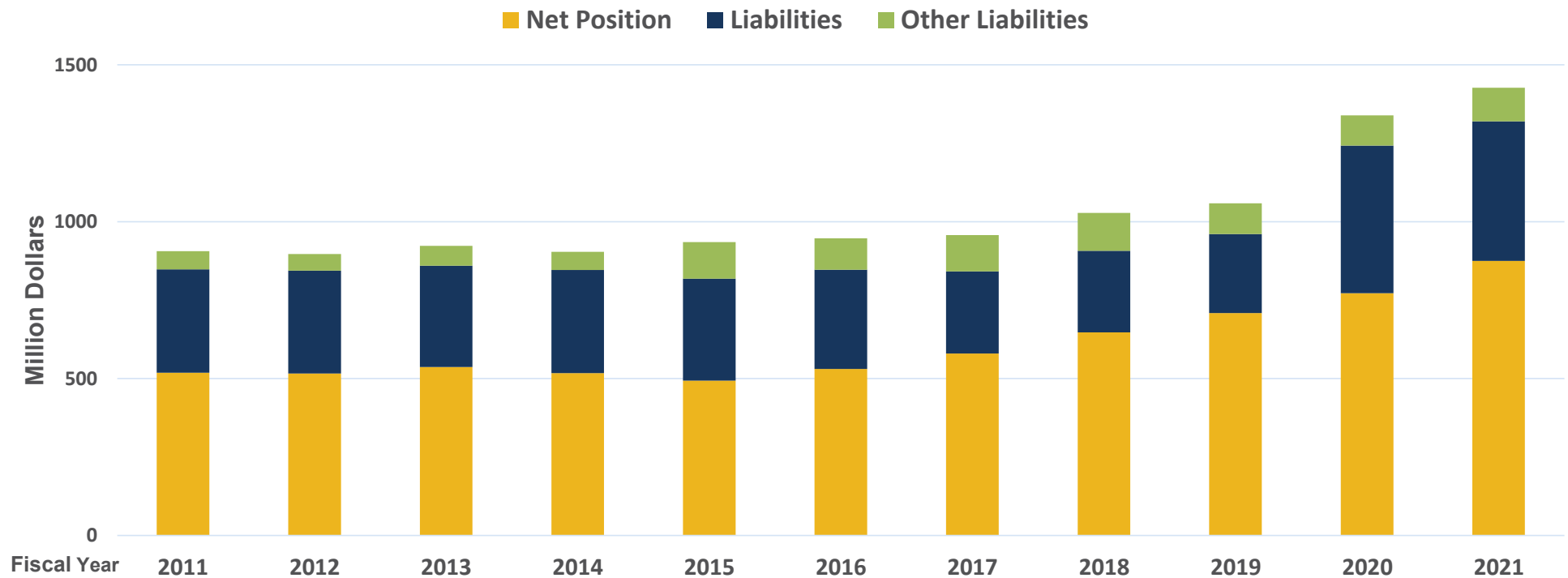
Total Assets Increased \$87 million from prior year

- Construction of new capital assets (RP-5 Expansion)
- Higher property tax and connection fees receipts

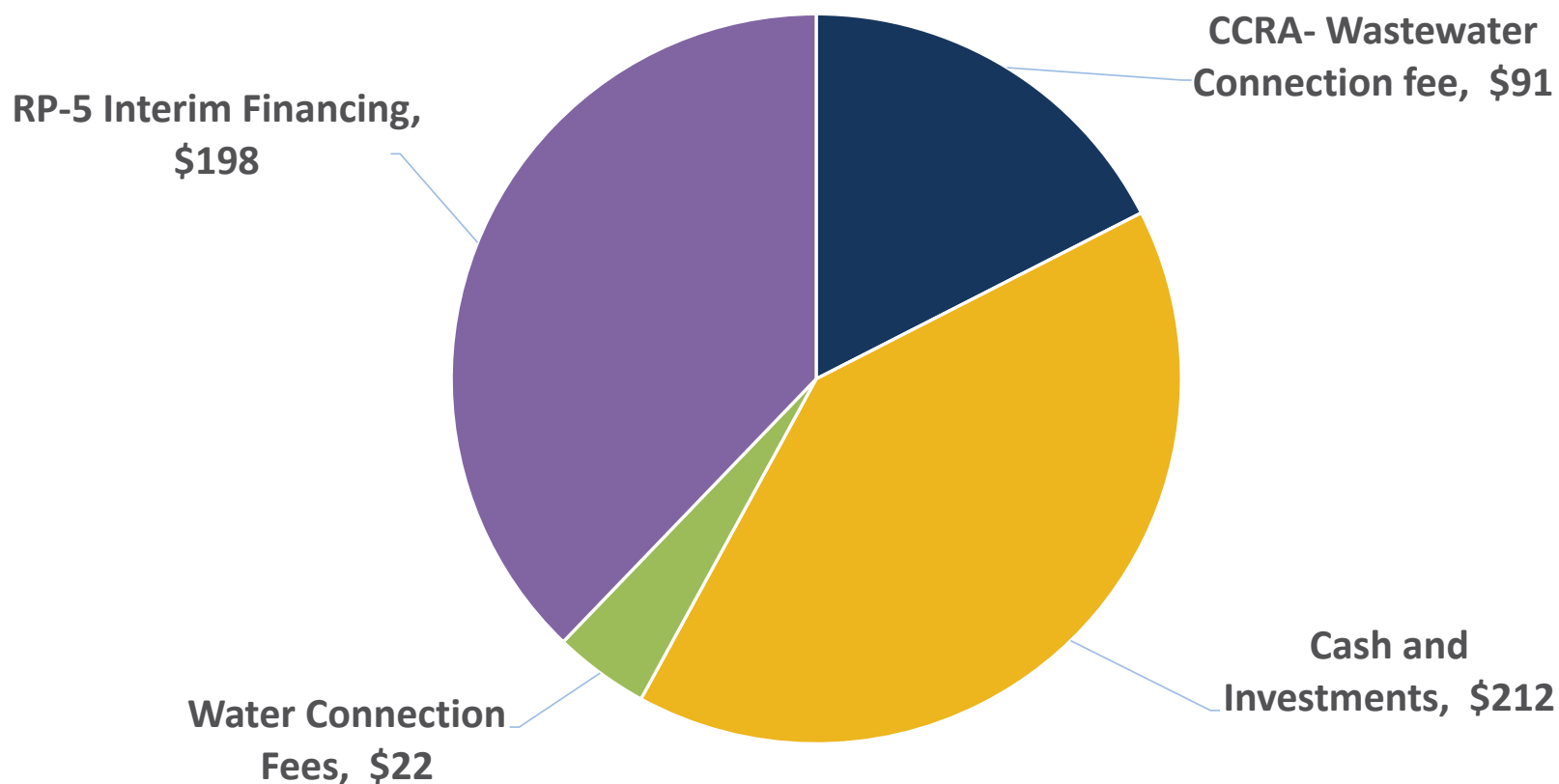


Total Liabilities and Net Position

- \$25.5 M net decrease in Long Term Debt
- \$103 M increase in Net Position



FY 2020/21 Cash, Investments, and Restricted Deposits \$523 Million



Recommendation

1. Approve the Inland Empire Utilities Agency Annual Comprehensive Financial Report for fiscal year ended June 30, 2021;
2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;
3. Approve an inter-fund loan of up to \$2 million from the Recycled Water Fund to the Recharge Water Fund to support the Recharge Master Plan Update execution while completing State Revolving Fund loan agreements; and
4. Authorize the General Manager to execute the inter-fund loan.



Questions?

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



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

Date: June 30, 2021

PROMISSORY NOTE

Promissory Note to the Recycled Water Fund (WC 10600 of the Inland Empire Utilities Agency (“Lender”), Chino, California.

For value received, the Recharge Water Fund (RW 10300) of the Inland Empire Utilities Agency (“Borrower”), having its offices at 6075 Kimball Avenue, Building A, Chino, California 91708, hereby promises to pay Lender, having its offices at 6075 Kimball Avenue, Building A, Chino, California 91708, the principal sum not-to-exceed amount of \$2,000,000 with interest at the annual average LAIF Rate for a period of one year following the execution of this Note between Borrower and Lender as defined above. The obligations of Borrower are subject to the terms of this Note and the IEUA policy on inter-fund transfer and loan’s, adopted by the Board as Resolution 2001-12-01 on December 5, 2001 and incorporated by reference

This Interfund loan will support the implementation of the Recharge Master Plan Updates projects that are included in the Recharge Water Fund (RW 10300), until the receipts of State Revolving Fund Loans from the State Water Resources Control Board.

1. The loan principal and interest repayment is open-ended, pending Board action to establish the funding source, and a loan repayment schedule.
2. Interest on said funds shall accrue in annual installments on the outstanding principal beginning on the 1st day of July, 2021 and continuing through the last day of the loan repayment schedule, on which day the entire balance of the unpaid principal with unpaid interest due thereon shall be due and payable.
3. Executed as of the day and date first above written.

INLAND EMPIRE UTILITIES AGENCY

BY: _____

Shivaji Deshmukh

General Manager

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

ACTION
ITEM

1C

Date: December 8, 2021

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/06/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Charter and Audit Committee Charter

Executive Summary:

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

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

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

Staff's Recommendation:

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

Budget Impact *Budgeted* (Y/N): 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 December 16, 2020, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Audit Committee Charter

Attachment 2 - Internal Audit Department Charter

Attachment 3 - PowerPoint



INLAND EMPIRE UTILITIES AGENCY

Audit Committee Charter

Approved on December 8, 2021

PURPOSE

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

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

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

COMPOSITION, COMPENSATION & TERM OF SERVICE

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

"Ordinance of the Inland Empire Utilities Agency, a Municipal Water District, San Bernardino County, California, establishing compensation/benefits and authorizing reimbursement of expenses for the Board of Directors and their appointed representatives to the Metropolitan Water District of Southern California Board of Directors and outside Committee Members."

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

AUTHORITY

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

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

RESPONSIBILITIES

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

Financial Reporting:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

Internal Controls:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

Internal Audit Department:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

External Audit:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

Compliance:

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

Other Matters:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 8, 2021

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

ETHICAL CONDUCT

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

MEETINGS

The Audit Committee shall meet no less than quarterly.

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

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

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



INLAND EMPIRE UTILITIES AGENCY

Internal Audit Department Charter

Approved on December 8, 2021

PURPOSE

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

The purpose of the Internal Audit Department (IA) is to assist the Board of Directors (Board) and the Audit Committee (Committee) in fulfilling their oversight responsibilities for financial reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations and to provide objective assurance about the Agency's operations. The purpose of the Internal Audit Department is also to provide as a service to management and as a way of adding value to improve the operations of the Agency, consulting services, analyses, recommendations, and information concerning operations.

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

MISSION

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

VALUES

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

Independence

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

Integrity

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

Professionalism

The Internal Audit Department will perform its work with due professional care at all times.

Collaboration

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

ACCOUNTABILITY

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

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

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

INDEPENDENCE

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

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

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

AUTHORITY

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

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

INLAND EMPIRE UTILITIES AGENCY

Internal Audit Department Charter

Approved on December 8, 2021

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

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

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

RESPONSIBILITIES

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

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

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

Internal Controls

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

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

Audit

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

Reporting

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

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

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

STANDARDS OF ETHICAL CONDUCT

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 8, 2021

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

MANAGEMENT RESPONSIBILITIES

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

Management's responsibilities include:

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

Audit Committee Charter & Internal Audit Department Charter

Sapna Nangia
Senior Internal Auditor
December 2021

Board Recommendation:

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

Charters

No proposed changes or updates at this time

Audit Committee Charter

- Purpose
- Composition
- Authority
- Responsibilities
- Meetings

Internal Audit Department Charter

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

Board Recommendation:

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

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

INFORMATION
ITEM
2A

Date: December 8, 2021

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/06/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Accounts Payable Operational and Internal Controls Audit Report
Review of Procure to Pay Processes for Chemicals

Executive Summary:

IA staff completed an extensive evaluation of the procure to pay process for Agency chemicals. The objective of the audit was to evaluate the procure to pay processes for Agency chemicals, including ordering, receiving and payments, to identify problems, bottlenecks and constraints in the various steps to process chemical vendor invoices timely.

IA had previously presented an Interim Audit Report which noted that approximately 40% of the time invoices are paid after the invoice due date and terms. IA was directed to perform further evaluations. In response, IEUA's General Manager created a team with members from various departments to address the concerns. The report attached provides a list of observations and recommendations related to the following themes/issues: Processes and procedures require changes to make them more efficient, visibility of transactions through monitoring reports, PO & PR requirements and funding needs, training and Standard Operating Procedures (SOPs) are needed, communication, cross-communication and customer service approach need to be improved. IA will continue to further evaluate the procure to pay process for other Agency goods and services.

Staff's Recommendation:

This is an information item for the Board.

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 responsibilities and authority of IA are listed in the Charters.

Environmental Determination:

Not Applicable

Business Goal:


The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Chemicals 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.

Attachments:

Attachment 1 - Accounts Payable Operational and Internal Controls Audit Report
Review of Procure to Pay Processes for Chemicals
Attachment 2 - PowerPoint

DATE: November 24, 2021

TO: Shivaji Deshmukh
General Manager


FROM: Teresa V. Velarde
Manager of Internal Audit

**SUBJECT: Accounts Payable Operational and Internal Control Audit Report –
Review of Procure to Pay Processes for Chemicals**

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) has performed an audit of the procure to pay processes related to chemicals. The review was 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.

Audit Objective:

The objective of the audit was to evaluate the procure to pay processes for Agency chemicals, including ordering, receiving and payments, to identify problems, bottlenecks, and constraints in the various steps to process chemical vendor invoices timely, and propose recommendations to make the process more efficient.

Audit Techniques applied:

Audit techniques include:

- Interviews with Agency staff
- Observations of chemical deliveries
- Review of Agency policies
- Review of Standard Operating Procedures
- Review of the department's goals and objectives
- Evaluate internal controls
- Evaluate the steps to perform receiving, matching and payment process
- Analysis of financial transactions
- Review of supporting documents

Audit Results – Executive Summary & Background

During the Special Audit Committee Meeting, on August 30, 2021, IA presented the **Accounts Payable Operational and Internal Control Interim Audit Report**, dated August 20, 2021. The audit report gathered and evaluated information related to the process to pay vendor invoices and the results of the timeliness of all Agency invoice payments. The audit results found that in the 4 fiscal years evaluated since FY 2017/18, approximately 40% (more or less) of the time, the Agency pays invoices late. In some cases, the Agency receives numerous calls and emails from vendors requesting overdue payments, and at times, the Agency has been placed on “Credit Hold” by various vendors due to late payments. The Audit Committee discussed the need to further evaluate and correct the delays in payments to vendors to improve the Agency’s relationships and image with paying its vendors on time.

In response to the Audit Committee’s concerns and as a commitment to address the various issues, IEUA’s General Manager created the Agency’s Strike Team to further evaluate and make immediate changes to improve payment processing. The Strike Team meets almost weekly to discuss proposed improvements. The Strike team is composed of members from the following departments:

- Internal Audit
- Asset Management
- Engineering
- Finance and Accounting
- Contracts and Procurement
- Business Information Services

The Strike Team agreed on the existing problem and is the basis for the scope of this audit: ***Agency invoices are not being paid by the invoice due date and/or within the payment terms.*** IA recommends the Strike Team take the lead to ensure IAs observations and recommendations in this report are addressed to improve processes.

During the Audit Committee Meeting, IA proposed completing first, a review of the to procure to pay processes for chemicals due to the critical nature to operations. The Agency’s *chemicals* are identified as having the *highest* risk and greatest *impact* if these are not purchased and delivered on time. Chemicals are considered “*critical*” to the wastewater treatment process because of the public health regulatory requirements.

Internal Audit’s report follows and is organized as such:

- IA’s list of observations/findings and corresponding recommendations, noting the impact if the recommendations are implemented and the impacted Agency departments.
- Flowcharts, narratives, and detailed information about the Procure to Pay (P2P) processes.
- Background information about the O&M department and the chemicals used.
- Pictures of IAs observations of the chemical deliveries.
- Summary of analysis of specific, selected transactions to support observations.

Acknowledgements

IA would like to extend our appreciation to Accounting, Business Information Systems, Operations, Engineering and Contracts and Procurement staff for their cooperation and assistance during this review and look forward to continually working together.

Discussions with Management

IA provided this audit report in draft format and discussed the results and all audit recommendations with all respective Executive Managers, Department Managers and Supervisors for their input, comments and edits: Christina Valencia, Executive Manager of Finance and Administration/Assistant General Manager, Javier Chagoyen-Lazaro, Acting Executive Manager of Finance and Administration, Deborah Berry, Manager of Finance and Administration, Randy Lee, Executive Manager of Operations/Assistant General Manager, Scott Oakden, Manager of Operations and Maintenance, Scott Lenning, Deputy Manager of Operations, Ryan Love, Deputy Manager of Operations, Warren Green, Manager of Contracts, Procurement and Risk Services, and Susannah Shoaf, Contracts & Procurement Supervisor. We also met to discuss the audit observations and recommendations. Where possible, their comments have been incorporated prior to finalizing this report. Staff discussed plans to correct deficiencies identified and there was general agreement with the recommendations and observations.

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Chemicals 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.

Observations and Recommendations Procure to Pay Process for Chemicals

The problem identified by the Strike Team and the basis for the scope of this audit is: ***Agency invoices are not being paid by the invoice due date and/or within the payment terms.*** IA conducted observations, interviews, and various analysis of financial information. In this audit report IA provides several observations and recommendations related to the following general themes below.

There are delays in performing the Receiving function, due to:

- *Processes and procedures require changes to make them more efficient*
- *Visibility of transactions through monitoring reports*
- *PO & PR requirements and funding needs*
- *Training & Standard Operating Procedures (SOPs)*
- *Communication, cross-communication & customer service approach*
- *Efficient processes to ensure receiving is completed timely*

There are delays in processing invoices by the due date, due to:

- *Processes and procedures require changes to make them more efficient*
- *Visibility of transactions through monitoring reports*
- *PO & PR requirements and funding needs*
- *Training & Standard Operating Procedures (SOPs)*
- *Communication, cross-communication & customer service approach*
- *Proactive approach and procedures to ensuring timely payment*

Risks to IEUA due to late payments to vendors

- Being placed on credit hold and not being able to order goods for critical services
- Vendors not willing to do business with IEUA in the future
- Possible fees imposed or higher prices offered at the time of establishing contracts
- Harmed vendor relationships
- Damaged reputation and image of IEUA
- Staff time and resources wasted researching transactions and responding to vendors asking for overdue payments

The spreadsheet that follows identifies 35 audit observations and recommendations corresponding to specific points in the flowchart that follows the spreadsheet. The spreadsheet also provides information about the impact to the process if the recommendation is implemented and notes the impacted department(s) that need to collaborate and be involved to implement corrective action. The flowchart illustrates the steps involved in completing the receiving and payment processes for chemicals. The financial information and statistics that follow these documents provide additional support for the observations and recommendations identified. IA is available to provide additional reviews and assistance in evaluating implementation and corrective actions.

Internal Audit's list of Observations and Recommendations:

	Number from Flow Chart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
1	(1)	O&M and possibly ISS or BIS	Process People Technology	<p>Operator Scans Receiving Documentation.</p> <p>When employees scan using and Agency copier/scanner, documents go into a department shared scanned drive and this already creates an electronic copy of the documentation which is accessible by anyone in that department or with access to the folder.</p>	<p>Consider using the department scanned shared drive to "park" delivery documents and ensure other department staff know where to access those receiving documents.</p> <p>OR</p> <p>Work with ISS/BIS to establish a separate scanner folder (for example, named: "OPS RECEIVING DOCS" or similar) and have operators scan into this department folder where the admin assistants can retrieve the receiving documents, instead of waiting for an email copy.</p>	<p>Evaluate the impact on other scanned documents that are in the same department scanned shared folder to determine if there would be a conflict or create confusion with all the various scans.</p> <p>Evaluate if having BIS/ISS create a new folder in the scanners is feasible and can be made available to everyone in O&M.</p> <p>This could eliminate several administrative steps and up to several days to accomplish receiving the function.</p>
2	(1)	O&M and possibly ISS or BIS	Technology	<p>Operator Scans Receiving Documentation.</p> <p>At RP1, the Operator must drive to the main building, across the bridge to access the scanner because there is no scanner in their working area.</p> <p>Consider placing a scanner in closer proximity to the operator's working area (the plant office)</p> <p>OR</p> <p>See next recommendation below for leveraging other technologies.</p>	<p>Consider the feasibility of purchasing and servicing an additional scanner to be placed in closer proximity to the operators that have the Receiving documentation.</p> <p>OR</p> <p>See next recommendation below for leveraging other technologies.</p>	<p>Eliminate several administrative steps and up to several days to accomplish receiving function by eliminating the risk of misplacing information or the operators forgetting to complete the many steps in their process.</p> <p>Eliminate the travel time to access the 1 scanner at the main building.</p> <p>Eliminate up to several days it takes to submit the receiving documents to the administrative assistant by eliminating the need for the operator to retrieve the scanned copy, attach to an email and send an email.</p> <p>Save time when an admin assistant is out of the office, and they cannot perform receiving because documents are in their email/box. With a central location, admin assistants can all process receiving from a centralized electronic location.</p>

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 6 of 38

	Number from Flow Chart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
3	(1)	O&M and possibly ISS or BIS	Technology	<p>Operator Scans Receiving Documentation.</p> <p>Operators can use their work-issued iPhone, Notes app to scan, and send via email the documentation immediately when they verify and confirm receipt of goods; instead of having to wait until they go to the other building to scan and then return to send an email.</p>	<p>Consider the feasibility of leveraging the use of iPhones to perform the scanning and emailing receiving documentation immediately upon verification of receiving chemicals.</p> <p>If cell phones will be used for scanning and emailing, provide the necessary and consistent training and instructions to operators for using the Agency iPhone scan function to scan and email a document and work with ISS/BIS to set up a unique email address where receiving documentation can be centralized (for example: OPSReceivingDocs@ieua.org).</p>	<p>Training time to teach the iPhone scan function takes less than 5minutes.</p> <p>The scanning and emailing can be done immediately upon the operating receiving the goods.</p> <p>Eliminate administrative time. Eliminate the travel time to access the 1 scanner at the main building.</p> <p>Eliminate up to several days it takes to submit the receiving documents to the administrative assistant by eliminating the need for the operator to retrieve the scanned copy, attach to an email and send an email.</p> <p>Save time where admin assistants can all process receiving from a centralized electronic location.</p>
4	(2)	O&M and possibly AP possibly Records	Process People	<p>Hardcopy document is kept in a file or is provided to the admin assistant for receiving in SAP and filing. This step is different at different for North/South, this step should be standardized at all locations and determine the need/requirement for where the original hard copy documentation needs to be sent/retained (discuss with Records Management)</p>	<p>Determine where the original delivery/shipping documentation should go. (Department, Accounting or Records).</p> <p>Determine and standardize, for all locations, the process for how admin assistants will process the receiving in SAP with either an electronic copy or if the hard-copy documentation is needed for processing. Consider having them rely on the electronic documentation they can pull from a centralized location (scan folder or electronic email).</p>	<p>Standardize for all locations, (a) the procedure of how the delivery documentation will be converted to an electronic file, (b) where that document will be centralized/parked, (c) where the hardcopy documentation should be retained and (d) which version the admin assistants will use to process receiving. Will require training and communicating the standardized process. Will require documenting the new standardized process in a documented SOP.</p> <p>Improve the timing of when the admin assistant can perform receiving and where documents are retained/sent.</p>
5	(3)	O&M	Process People Technology	<p>Operator goes to computer to retrieve scanned documents and</p> <p>1. attach to email document to send to admin</p> <p>2. save to a department drive</p> <p>*Note - this creates 6 records to document the delivery (see notes below next observations)</p>	<p>See items related to #(2) above. Standardize for all locations the process of submitting the delivery docs to the admin assistant. Determine the need for multiple copies and if documents can be saved and retrieved from a centralized folder, file, or email (as described above) and specify where the hardcopy should go.</p>	<p>Reliance on electronic documents parked in centralized files could eliminate up to several days to finalize the receiving function in SAP.</p> <p>Streamline the number of times a document is electronically "saved" and emailed/submitted.</p> <p>Improve/expedite the timing of performing the receiving function in SAP.</p>

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 7 of 38

	Number from Flow Chart	Depts impacted	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
6	(4)	O&M and possibly ISS or BIS and Acctg	Process People Technology	<p>This step might be different at different locations. Admin assistant perform Receiving in SAP with email information from operators. Delivery documentation is sometimes uploaded to SAP and original hardcopy is kept in a separate file. It is unclear if the operator submits ALL delivery docs or if admin assistant uploads to SAP ALL delivery docs. Sometimes some or all the delivery docs are missing in SAP. AP needs these to perform the matching.</p> <p>*Note - this is now the 7th and 8th record to document the delivery (3 manual logs by the operator, the scanned copy, email attachment by the operator, dept drive by the operator, SAP uploaded document, and the original hardcopy documents saved by admin. assistant) At this point receiving is complete in SAP.</p>	<p>Standardize, for all plants:</p> <ul style="list-style-type: none"> -Specify which or if all delivery documents should be scanned, copied, emailed, and uploaded into SAP. -Standardize the admin assistant's process for performing receiving in SAP. Reduce the need for multiple electronic copies (4+ copies) and email communication of delivery documents (by implementing recommendations mentioned above). <p>Ensure all receiving documentation: Bill of Lading, all delivery documentation is uploaded into SAP at the time the admin assistant performs SAP Receiving function. Information is important for AP to complete the 3-way match (Delivery Documents, PO, and Invoice).</p>	<p>Eliminate the following steps:</p> <ul style="list-style-type: none"> *Having the operator walk to the scanner to scan docs.*Eliminate scanning (eliminate 1 electronic copy)*Having the operator drop off the original, hardcopy documents to a mailbox for the admin asst. *Having the operator prepare an email and attach the delivery documentation to email to submit to admin. (eliminates 1 electronic communication)*Having the operator save an electronic version to a shared drive (eliminates 1 electronic copy). Streamline the hand-off of delivery documents. Admin assistant can pull the receiving documentation from the centralized email/shared location and perform receiving almost immediately upon delivery. Using a centralized location also helps admin assistants help each other if any are ever out or on vacation.
7	(4)	O&M and Acctg	Process People Technology	<p>This step might be different at different locations. Admin assistant perform Receiving in SAP then they email AP to notify receiving is done. Determine the purpose of the email to AP. Does the email trigger AP to move forward with performing the matching and process payment? Is AP overwhelmed with the number of emails that they may not notice.</p> <p>*Note - this is now the 9th record to document the delivery (see above). At this point receiving is complete in SAP.</p>	<p>Standardize, for all plants a consistent methodology for the receiving function in SAP:</p> <ul style="list-style-type: none"> -Standardize the admin's process for perform receiving in SAP. Reduce the need for multiple electronic copies and emails. <p>Ensure all receiving documentation: Bill of Lading, all delivery documentation is uploaded into SAP at the time the admin performs receiving.</p> <p>Determine and streamline the need for the several emails and attachments among the operators, admins, and AP staff.</p>	<p>Standardize for all locations the process for how receiving in SAP will be performed and how many logs and copies and emails of the supporting documentation need to be sent/submitted to certify that receiving has been completed.</p> <p>Streamline the number of times a document is electronically "saved" and emailed/submitted.</p> <p>Cross-communication between O&M and Accounting to determine the most effective and appropriate method to communicate when the receiving function is complete.</p>
8	Overall Process	O&M and possibly AP and CAP	Process People	<p>Some delays in paying vendor invoices occur because there are no procedures in place for O&M staff to ensure they perform receiving against the correct POs AND there is no continuous review and close monitoring of POs to check pricing terms and ensure there is sufficient funding in the PO for the orders placed and planned.</p>	<p>Formalize and document Agency Policies or Department SOPs to:</p> <ul style="list-style-type: none"> *Ensure staff perform receiving against the correct PO and the correct line item within the PO. *Work closely with CAP to continuously review POs to check pricing terms and that there is sufficient funding in the PO for the orders planned. 	<p>Minimize or eliminate bottlenecks and delays with matching the delivery documents to the PO and minimize funding issues when AP tries to match and pay vendor invoices.</p> <p>O&M closely monitor POs and adjust proactively, not wait until AP is not able to process the payment.</p>

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 8 of 38

	Number from Flow Chart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
9	Overall Process	O&M	Process	There is a need for documented SOPs that provide specific procedure steps for performing the verification of the goods delivered, by the operators and the receiving function in SAP, by the administrative assistants.	Document specific SOPs to establish consistent procedures for employees to follow, be trained on and evaluated on. SOPs should be reviewed periodically, and updates should be made as needed.	Establish consistency in processes. SOPs for the verification of delivered goods and the function of receiving into SAP should be documented once all recommendations and changes have been implemented.
10	Overall Process	O&M	Process	There is a need for training to establish consistency for all locations and for all employees on the verification of the deliveries and how to handle the documentation and the process for receiving in SAP.	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures and any updates are communicated promptly.	Establish consistency in processes. Training should be done periodically after SOPs have been documented and new procedures have been agreed to.
11	Overall Process	O&M	Process	There is a need to establish a formal method for the process of logging deliveries, filing documentation and the process for completing receiving, with the goal of ensuring receiving in SAP is completed within just a few days of delivery.	Evaluate all findings and recommendations and develop a more streamlined and consistent approach to ensure receiving is completed by the administrative assistants within a few days of delivery.	Quick receiving function completed so that accounting can match and process all invoices. The goal to complete receiving in SAP should be approximately a week or less depending on how often receiving is processed and completed in SAP.
12	Overall Process	O&M & BIS	Process	Consider establishing performance metrics, KPI's, goals and objectives and a method to measure those for the processes of Receiving items in SAP.	Establish and document performance metrics, KPI's, goals and objectives and a method to measure those for the documentation of the deliveries by the operators and the time it takes to complete receiving into SAP. Work with BIS to establish any reports that can provide measurements and metrics.	Streamlined process of documenting the delivery and completing the receiving in SAP. Measurements to evaluate how the revised processes are working and evaluate employee performance.
13	Overall Process	O&M, CAP, Acctg and BIS	Process	Consider eliminating the receiving function to pay Chemicals, similar to payments for utility bills, so that AP can process payments without waiting for the receiving function. This will require coordination to ensure the review and reconciliation of all invoices to the receiving documents is done after the invoice is paid.	Consider eliminating the receiving function before issuing payments for chemicals, so that AP process payments without waiting for the receiving function. Determine the feasibility to reconfigure and implement the change in SAP. Determine how the "after the fact" reconciliation of receiving documents to POs and invoices will be completed to ensure proper oversight is performed. Assess the benefit, impact, and the risks of eliminating the best practice internal control of performing the receiving before the 3-way match and the payment are issued.	All chemical invoices will be paid on time by the due date. *Reconciliation of delivery documents to the PO and the Invoice will be done "after the fact". It is important to first determine which department will be responsible for ensuring this verification and oversight and how frequently the reconciliations will be performed. *Determine what steps will be taken when differences/errors are discovered, and the invoice has been paid. *There is a serious risk and impact to the way internal controls should operate within the procure to pay cycle. *There is a risk that errors and differences will go undetected before payments are issued.

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 9 of 38

	Number from Flowchart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
1 4	(5)	O&M CAP and Acctg	Process People	CAP generates the PO with the requested amount of the PR determined by O&M. There seems to be an issue with the way the original PRs are established, sometimes the amount determined for the PR is not sufficient and the PO amount runs out, causing delays in processing payment. When the monies run out, CAP must be involved, and this requires additional time before payment can be processed.	CAP and Accounting should assist in providing training, information and have continuous communication with O&M staff prior to assisting with establishing the requested POs. If the planned budget amount for each chemical is known and forecasted, the PR should be set up with sufficient funds to be able to cover a full years of invoice charges. O&M would benefit from training and information from CAP and Accounting.	Periodic training, reminders and frequent communication are necessary to ensure that POs have sufficient monies for the year. Having sufficient money to cover all annual invoice amounts, would eliminate up to several days in the payment process because CAP, O&M and Accounting don't need to spend time researching and creating additional PRs to add monies to the PO. CAP works with O&M and Accounting.
1 5	(6)	O&M CAP and Acctg	Process People	<p>If there is a pricing change throughout the Fiscal Year, CAP must establish a new PO# with the new PR amount and pricing according to the PR information and request submitted by O&M.</p> <p>This can create a delay in processing payments because it requires time and additional communication among the departments to ensure the new pricing information is provided and the new PR is submitted to CAP to ensure the new PO# is established with all the complete/accurate information.</p>	There should be continuous monitoring of PO terms and pricing against the most current updates/amendments to the chemical contracts. O&M and CAP staff should work closely together to ensure that once the pricing adjustments are made, O&M immediately submits the required PR with the new terms so that CAP can establish the new PO# with the new terms.	If receiving under new terms and pricing is done against a PO with old terms and pricing, at some point, when the differences are discovered, staff must go into the PO, reverse all the entries against old terms and pricing, create a new PO and move the receiving against the new PO. This causes delays processing payments to vendors and does require redundant work. CAP working with O&M proactively to ensure that a new PR with the new terms is submitted by O&M immediately after the new pricing is known to ensure there is no interruption on receiving under the new terms.
1 6	(7)	O&M CAP and Acctg	Process People	The Open PO Report is available for all staff to view/review. Staff who manage POs should continuously review their POs to ensure there is sufficient money for the orders they will be placing. If money runs out in the established PO, O&M staff must create a new PR with additional funding, then CAP facilitates adding the new funded PR to the existing PO so that receiving can be performed prior to invoices being able to be processed for payment. This is often not discovered until accounting needs to process the invoice for payment.	<p>If O&M staff have a forecast/planned/budgeted amount to be spent on a specific vendor, the PR should be created with the total anticipated/planned amount for that vendor so that monies do not run out throughout the year.</p> <p>The Open PO Report should be reviewed by all staff who manage POs for their department needs to continuously monitor PO amounts. O&M staff should forecast and plan for incoming invoices and proactively ensure the existing POs have sufficient funds.</p>	When the PO runs out of money, this can create delays in Accounting being able to process payments then all three departments must work together to resolve but this is often not discovered until Accounting tries to process the payment. These types of delays can be prevented with proper planning (sufficient funds in the PR) and continuous monitoring of the POs through the Open PO Report.

	Number from Flowchart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
17	(7)	O&M CAP and Acctg	Process People	<p>The Open PO Report is available for all staff to view/review. Staff who manage POs should continuously review their POs to ensure there is sufficient money for the orders they will be placing.</p> <p>Not all O&M staff who process orders/requests for chemicals, review the Open PO Report to ensure there is sufficient money to process the corresponding payments. And/or not all staff understand how to check and monitor their department's POs to ensure there is sufficient money for the chemical orders they are placing.</p>	O&M work closely with CAP and Accounting and possibly BIS to understand how to run, download and review the Open PO Report to monitor the department's chemical POs to ensure that orders that are being placed will have the sufficient funds available in the corresponding POs and if additional money is needed, staff should proactively submit additional PRs with new funding requests.	Continuous/proactive monitoring using the Open PO Report or other monitoring tools will provide additional information to those placing/monitoring orders so that sufficient money is always available for the orders being placed. This continuous and proactive monitoring will significantly reduce any delays regarding sufficient funds in the corresponding POs.
18	Overall Process	O&M CAP and Acctg	Process	There is a need for documented SOPs. SOPs establish consistent procedures for employees to follow and be trained on and evaluated on.	CAP and Accounting should assist O&M in documenting proper SOPs for funding POs.	<p>SOPs establish consistency in processes.</p> <p>SOPs should be documented once all recommendations and changes have been implemented.</p>
19	Overall Process	O&M CAP and Acctg	Process	There is a need for training. Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.	CAP & Accounting should assist with providing periodic training to O&M on properly funding POs.	Training should be done periodically after SOPs have been documented and new procedures have been agreed to.
20	Overall Process	CAP O&M	Process	The overall process of assisting with creating POs and adding funding based on additional PRs should be reevaluated.	CAP should work with the end users to explain, provide assistance, training and coaching to ensure POs are established for the budgeted/ planned/ forecasted amount needed for the vendor.	Cross-collaboration to eliminate any bottlenecks related to running out of funding in the PO.

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 11 of 38

	Number from Flowchart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
21	(8)	Acctg O&M and possibly CAP	Process People	<p>New step as of July 1, 2021: When invoices arrive at the Agency, all invoices are entered and posted into SAP to the "Held Invoices" (a database of all invoices received). The purpose is to "park and hold" the invoices pending further processing in SAP by AP staff.</p> <p>Determine the overall use of the "Held Invoices" database/report and document steps to process invoices from the database.</p> <p>There is a need to formalize and documented the new procedure and provide training to ensure consistency.</p>	<p>Once the information is entered into SAP in the "Held Invoices" database, AP staff should frequently review and evaluate outstanding items and items past the payment terms and elevate them for additional attention and prompt processing.</p> <p>Determine if this process is helping expedite processing invoices for payments and formalize by documenting specific procedures for staff to follow to provide specific steps for uploading invoices, how to monitor items and activity and actions steps for different situations</p>	<p>Close monitoring of all Agency invoices posted to the "Held Invoices" to ensure prompt payment to reduce and/or eliminate the instances of late payments. Additionally, monitoring helps prompt AT staff to follow up on the items that require immediate attention.</p> <p>Formalizing the process of uploading invoice items in the "Held Invoices" database provides visibility of all outstanding items and the ability to monitor, review and follow up on items.</p>
22	(9)	Acctg and BIS	Process	<p>For goods-related invoices, before processing an invoice for payment, AP must complete a 3-way match in SAP (PO, delivery documents, invoice), AP must navigate through several screens in SAP to verify that the receiving function was performed.</p> <p>There is no clear, formal, specific documented method or process for how staff select invoices for either matching or processing for payment.</p>	<p>Work with BIS to determine if there is an existing report or a way to create a report to assist with making the 3-way matching more efficient to expedite the invoice processing.</p> <p>Formalize and document specific procedures to specify how and what items should be selected by AP staff to perform the 3-way match AND processing of payments, also specify the frequency of when this process should be completed.</p>	<p>Facilitate and expedite reviewing that the receiving was completed and streamline the 3-way match. Additionally, formalize a consistent methodology that all AP staff follow to perform matching and processing for payment.</p>
23	(9) & (10)	AP and BIS	Process	<p>For outstanding invoices, AP should not wait until the end-user department or other reaches out asking to process invoices for payment. There is a need to establish a formal, documented process where all outstanding invoices can be reviewed periodically and scheduled for payment before the due date, and anything that is outstanding or past the payment terms should be elevated for review, research, and prompt processing.</p>	<p>Accounting should work with BIS to develop an Aging Report or a report that shows all outstanding invoice information, including total days held and outstanding or overdue so that Accounting can take prompt action.</p> <p>OR</p> <p>Accounting should work with BIS to export and fully utilize the Held Invoice Report to review all items and ensure any outstanding items are reviewed promptly.</p> <p>AND</p> <p>Accounting should formalize and document specific procedures for how items are selected for matching and processing for payment before the due date.</p>	<p>Consistent and formal system and methodology for reviewing and selecting what and when to process items for matching and payment with the end goal of ensuring all invoices are due by the due date.</p> <p>AP work proactively and collaborate, anticipating any issues by elevating items that are outstanding for prompt review and payment processing.</p> <p>Reduce late payments and the number of vendors calling because of overdue amounts.</p>

	Number from Flowchart	Depts impacted	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
24	(11)	Acctg	Process People	If SAP receiving has not been completed by O&M, the invoice is placed back on hold and continue to stay in "Held invoices".	See items (9) & (10) above Train staff to work proactively and collaborate with other departments in researching and resolving any delays/blocks with processing invoices for payment, with the end goal of working to pay all invoices by the due date. AND Accounting should formalize and document specific procedures for how items are selected for matching and processing for payment before the due date. Specify the action steps, AP should take when items are approaching the due date or are past the due date, and how to elevate items for prompt research and attention.	Will reduce instances where invoices are paid very late. Will reduce instances where vendors are calling and requesting payment and threatening credit holds. Minimize late payments by establishing and documenting and clear, consistent, methodology and procedure. AP work proactively and collaborate, anticipating any issues by elevating items that are outstanding for prompt review and payment processing.
25	(12)	Acctg	Process Technology	AP Processes Invoice for payment during the "next scheduled payment cycle." Need to define what is "the next scheduled payment cycle". Accounting staff indicated that SAP "flags" when an invoice is due and that is how staff determine what to pay. If SAP flags at the exact invoice terms (on the due date and after) this could be a big reason why all invoices are paid in the month after the due date (per our review of all payments, see table in this audit report).	If SAP "flags" items for payment on the due date and after , Accounting and BIS should work together to evaluate the cost/benefit to reconfigure this built-in SAP "flag/alert" to ensure SAP "flags" items for payment 5 or so days before the invoice due date, so that items can be processed days prior to the due date to avoid being paid late.	Accounting will be able to see items that are due within the payment cycle to process for payment by the due date. A systematic method to pay invoices before they are due and reduce the instances of late invoices.

	Number from Flowchart	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
2 6	Overall Process	Acctg	Process	There is a need for documented SOPs to formalize the process for when and how frequently and how the 3-way matching is done and when invoices are processed for payment.	Formalize and document specific procedures to specify how and what items should be selected by AP staff to perform the 3-way match AND processing of payments, also specify the frequency of when this process should be completed. SOPs establish consistent procedures for employees to follow and be trained and evaluated on.	SOPs should be documented once all recommendations and changes have been implemented.
2 7	Overall Process	Acctg	Process	There is a need for training. Accounting should provide training to AP staff on any new processes established.	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.	Training should be done periodically after SOPs have been documented and new procedures have been agreed to.
2 8	Overall Process	Acctg O&M CAP	People	Periodic meetings with administrative assistants to review and discuss receiving and invoice processing items that require attention.	Accounting should continue to lead periodic meetings with the end users. Discuss the "Held Invoice Report", discuss any vendor phone calls received, discuss PO issues, and any other bottlenecks/issue/concerns and discuss resolutions for moving forward.	Frequent meetings, updates and discussions improve responding to items that require attention and improve cross-department collaboration. This may reduce the instances when similar issues continue to re-occur.
2 9	Overall Process	Acctg and BIS	Process	Establishing performance metrics and KPI's, goals and objectives and a method to measure those. For example, establish a goal to ensure invoices are paid by the due date 90% of the time or within a given number of days from the date the invoice is received.	Establish and document performance metrics and KPI's, goals and objectives and a method to measure how timely invoices are paid. Work with BIS to establish any reports that can provide measurements and metrics.	Measurements to evaluate the revised process and evaluate employee performance.

Beginning on the next page, (items highlighted in pink) is a list of findings and recommendations are based on the results of IAs review and test of transactions. IA selected 40 transactions out of 401 invoices paid late in FY21 (10%) (paid 10 days or more after the due date). IA tested to determine the following:

- Number of days between physical delivery and the receiving in SAP
- Number of days from the invoice date and the date AP received invoice
- Number of days between completion of receiving by O&M and the processing of the invoice for payment
- The total number of days for the Agency to pay the invoice after the invoice due date
- The number of days from physically receiving the chemical to the date paid.

A complete summary of the items tested, and the results is attached on pages 37 and 38.

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 14 of 38

	Based on Results of Transactions Tested	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
30	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>14 of 40 items tested (35%) did not include a Bill of Lading in SAP (Materials Module)</p> <p>There are no Agency policies or SOPs that specify the type of documentation that should be retained and uploaded into SAP at the time of processing receiving or payments. Accounting is required to do a 3-way match with:</p> <ul style="list-style-type: none"> • Proof of Deliver (Bill of Lading) • Purchase Order • Invoice <p>When the Bill of Lading is not attached and included in SAP at the time of Receiving, Accounting cannot perform a complete 3-way match.</p>	<p>Document and formalize an Agency Policy or Department SOP about the requirement for completing receiving, matching, and processing payments.</p> <p>-Specify the types of documents that should be included and verified in SAP or other required reports, before payments are processed.</p> <p>-Specify if the Bill of Lading provided by the delivery drivers to the operators should be uploaded into SAP at the time SAP Receiving is completed or be retained in hard-copy and where specifically.</p>	<p>Uploading, retaining, and matching all the required documentation provides a complete audit trail to support the procurement transaction was correctly authorized, verified and paid.</p>
31	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>3 of 40 items tested (8%) did not include an invoice in SAP.</p> <p>In 1 of 40 items tested (3%) AP staff did not document, to acknowledge, the date they received the invoice from the vendor, as with all others.</p> <p>5 of 40 items tested (13%) had differences in the amounts paid when compared to the amount due on the vendor's invoice.</p> <p>There are no Agency policies or SOPs that specify the type of documentation that should be retained and uploaded into SAP at the time of processing or that provide the detailed steps AP staff should perform to acknowledge, upload, and process the invoice. Additionally, there are no processes to specify how to pay when there are pricing differences with the invoice and the amounts paid.</p>	<p>Document and formalize in an Agency Policy or Department SOP about the requirement for completing receiving, matching, and processing payments.</p> <p>-Specify the types of documents that should be included and verified in SAP or other required reports, before payments are processed.</p> <p>-Specify that the invoice received by Accounts Payable should be documented with a date received and uploaded into SAP and accurately matched to the corresponding transaction.</p> <p>Accounting should work with BIS to develop an Aging Report or a report that shows all outstanding invoice information, including total days held and outstanding or overdue so that Accounting can take prompt action.</p>	<p>Uploading, retaining, documenting receipt, and matching all the required documentation provides a complete audit trail to support the procurement transaction was correctly authorized, verified and paid.</p> <p>A systematic method to pay invoices before they are due and reduce the instances of late invoices.</p>

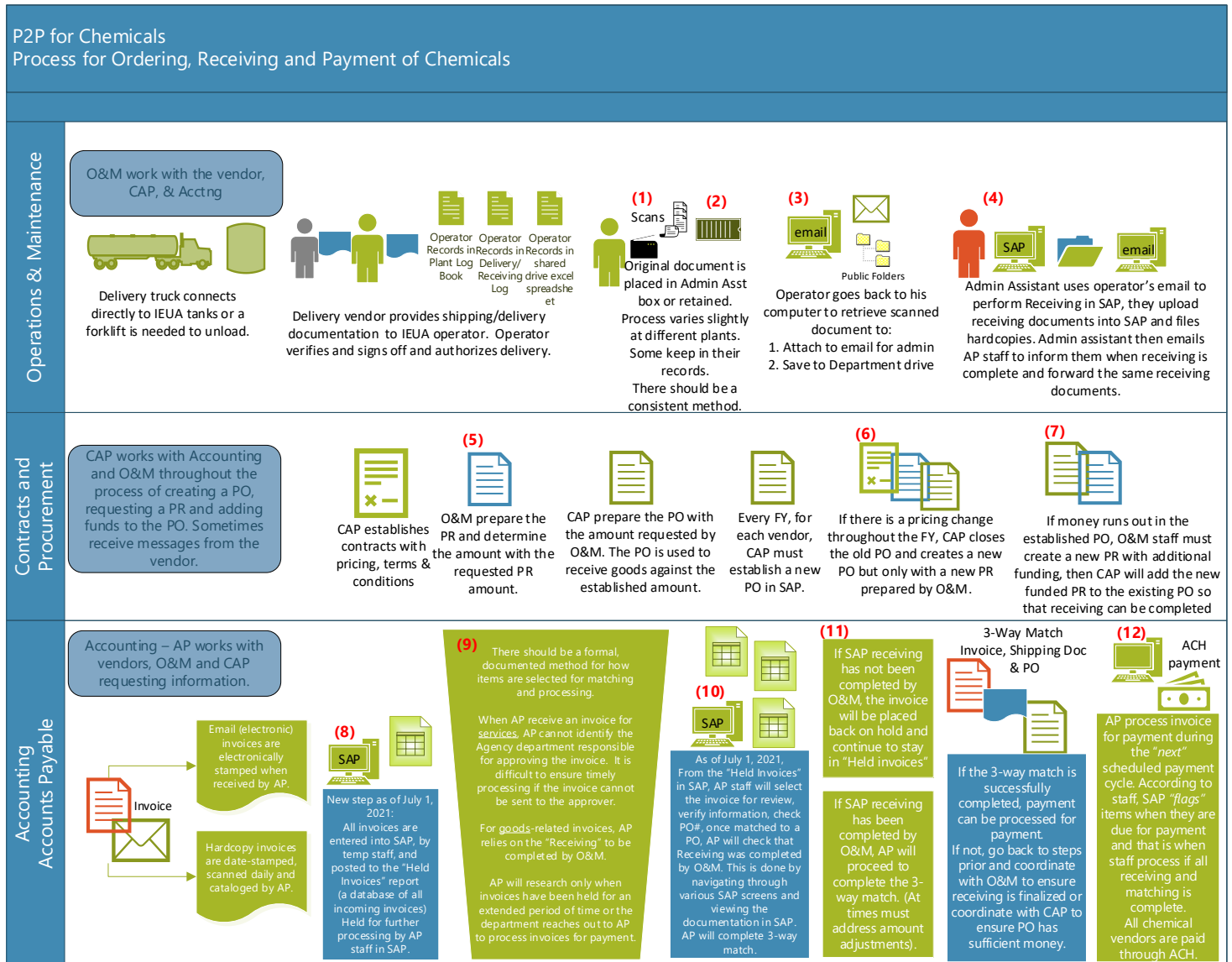
Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 15 of 38

	Based on Results of Transactions Tested	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
3 2	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>6 of 40 items tested (15%) had incorrect/inaccurate dates or data resulting from either <u>data-entry errors</u> or <u>back-dating information</u>.</p> <p>There are no Agency policies or SOPs that specify the requirement of the accuracy and/or how to enter, post and upload information and dates and if there are instances where it would be acceptable to back-date or post-date information in SAP. The accuracy of the data entered in SAP is very important to the resulting metrics and the information about the aging and timing of procurement transactions.</p>	<p>Document and formalize in an Agency Policy or Department SOP about the requirement and expectation for the accuracy of data entry.</p> <p>-Emphasize the importance that staff is expected to make every attempt to ensure the data entered in SAP for receiving and invoice processing needs to be accurate and accurately match the corresponding supporting documentation.</p> <p>-Specify when it is allowable and when it is not allowable to back-post or post-date information.</p>	<p>More accurate reports and measures to evaluate the timeliness and the performance of the transactions processed. Additionally, to identify items that require additional and immediate attention.</p> <p>The accuracy of the data entered in SAP is very important to the resulting metrics and the information about the aging and timing of procurement transactions.</p>
3 3	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>8 of 40 items tested (20%) were paid after the invoice due date and considered late (between 11 and 183 days late); <u>even when the Receiving was complete within a reasonable amount of time (less than 15 days)</u>.</p> <p>32 of 40 (80%) were paid late; <u>in these instances, receiving was completed late (between 18-127 days after items were delivered)</u>, AND even though the invoice was late and receiving was late, it still took between 0-180 days after the receiving was done, to process the late invoice.</p> <p>This demonstrates that in some instances payment is processed immediately when receiving is done or held for processing at a future date, but there are no procedures for processing invoices or how to handle the very delayed items.</p>	<p>Document and formalize in an Agency Policy or Department SOP about the requirement and expectation for the accuracy of data entry.</p> <p>-Specify what is an acceptable best practice and approximate time frame for processing the invoice, complete the 3-way match, and process for payment.</p> <p>-Specify how invoices uploaded are monitored to ensure that items are processed by the payment terms.</p> <p>-Specify how delayed items should be handled and communicated with the goal of issuing payment by the payment terms.</p>	<p>Developing an aging report will help review and monitor invoice activity.</p> <p>Formalizing and standardizing processes for uploading, reviewing, and processing invoices for payments with the end goal to pay invoices by the due date will reduce the instances of late payments.</p> <p>Increased cross-departmental collaboration and communication with the same goal to ensure vendors are paid within payment terms.</p>

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 16 of 38

	Based on Results of Transactions Tested	Depts impact -ed	Type of Finding	Observation, Finding, Issue or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
34	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>32 of 40 items tested (80%) were Received in SAP between 28 and 127 days after the chemicals were delivered to the Agency. There are no documented reasons for the delay in completing the Receiving in SAP: if it was an operator not providing the information to the admin assistants or the admin assistants not completing the Receiving function in SAP.</p> <p>In these instances, when the Receiving function in SAP is not complete, Accounting has no visibility of the transaction and cannot perform the 3-way match and process the payment.</p>	<p>Document and formalize in an Agency Policy or Department SOP the process for ensuring the Receiving function in SAP is completed within days from the date the chemicals are delivered to the Agency.</p> <p>-Specify what is an acceptable best practice and approximate time frame allowed for the operator to submit the delivery documentation to the Administrative Assistants, and</p> <p>-Specify what is an acceptable best practice and approximate time frame allowed for the Administrative Assistants to complete the receiving in SAP.</p> <p>-Implement recommendations provided in Recommendations #1-12 above to streamline the receiving process.</p>	<p>Increased cross-departmental collaboration and communication with the same goal to ensure vendors are paid within payment terms.</p> <p>Ensure a more efficient process to process invoices in SAP.</p>
35	Based on results of the items selected and tested	O&M and Acctg	Process People	<p>In 5 of 40 items tested (13%), AP staff indicated on the invoice a "received by AP date" that was more than 30 days after the vendors' invoice date. This delayed the invoice being uploaded into SAP and processed by AP.</p> <p>These invoices were sent to the AP email address and was before the "Held Invoices Report" upload process; therefore, potentially the invoice was sitting in the email address pending processing.</p> <p>This demonstrates that there is no consistent method for how staff should retrieve, date and upload invoices into SAP for payment process.</p>	<p>Document and formalize in an Agency Policy or Department SOP about the requirements and expectations for AP staff to open/download invoices, date, upload, match and process invoices in SAP and process payments.</p> <p>Consider establishing KPI's and/or benchmarks to determine a reasonable amount for invoice retrieving, uploading, matching, and posting to be performed and processing the Invoices for payment.</p>	<p>Formalize and standardize the process to handle invoices, upload into SAP and process for payment.</p> <p>Ensure a more efficient process to process invoices in SAP and minimize delays to pay.</p>

There are three primary departments involved in the procure to pay process for chemicals, Operations & Maintenance (O&M), Contracts and Procurement (CAP), and Finance & Accounting (Accounting), the process (per department) is illustrated below and following is the narrative step by step process (steps have been confirmed with the respective departments).



(#) all references to the numbers noted in this flowchart, correspond to observations and recommendations in the spreadsheet.

This diagram provides the overview of the Procure-to-Pay Cycle for goods.

This diagram was provided by Accounts Payable in recent correspondence to all Agency employees. The purpose was to inform and alert employees of upcoming holiday schedules and to communicate changes to important due dates in the procure to pay cycle due to holidays so that we can all work to ensure all transactions are processed timely.

This diagram demonstrates the various steps involved in ordering, receiving, and processing payments for goods. This diagram provides the ideal path of the procure to pay process.



The Procure to Pay process for chemicals is documented below in narrative format.

Procure to Pay process for Chemicals:

CAP and Operations & Maintenance

1. Contracts and Procurement (CAP) establishes all the Chemical contracts and serves as the administrator based on requests from O&M, while Operations & Maintenance (O&M) staff act as the responsible Project Managers (PM) that oversee the day-to-day implementation of the contracts.
2. Each Fiscal Year, at the request from O&M through Purchase Requests, for every chemical vendor, a Purchase Order (PO) number is created by CAP in the Agency's Financial System (SAP). O&M staff determines the amount of the original Purchase Requisition (PR) and CAP generates the corresponding PO with the requested PR amount for receiving and payment of invoices.
 - If there is pricing change throughout the fiscal year, CAP must establish a new PO with the new PR and new negotiated pricing, based on information provided by O&M.
 - If there is not enough money in the established PO, O&M staff create a new PR with additional funding and CAP facilitates adding the new funded PR to the existing PO.

Operations: Physical Receipt of Chemicals

1. Operations staff determines the chemicals that are needed for each of the treatment plants and orders are placed with the Vendor via phone and/or online.
2. Chemicals can be delivered and received 7 days a week at all locations.
3. Chemicals are delivered either by the Vendor's in-house logistics services and/or 3rd party logistics company.
4. Operations staff accepts delivery of the chemical and supporting documentation:
 - Bill of Lading (BOL), Weighmaster Certificate or Freight/Logistics form, and Certificate of Quality). On the BOL, Operations staff will note their name, employee number, chemical name, location/section, date, and time (sometimes) of when the chemical was received.
5. Operations staff completes the *Chemical Receiving Log*.
 - On this log, Operations staff will record the tank number/direction and beginning and ending levels of the tank to determine the number of gallons received.

6. Then, Operations staff manually records detailed information about the chemical deliveries in a physical, hardcopy plant logbook.
 - Logbook is used to record all activities related to the treatment plants. Types of information recorded include any chemical deliveries, process changes, incidents, electric disruptions, compliance issues, and so on.
7. Next, operations staff records the chemical delivery information in an excel spreadsheet that is located on the Agency's shared drive (department-specific location).
8. Operations staff scans in the supporting documentation received at the time of chemical delivery using a copier and the PDF file is stored in a scanned folder on the Agency's shared drive.
9. Operations staff retrieves the PDF file of the scanned documentation (i.e., BOL, Quality Report, etc.) and places a copy of the file in the department's internal shared drive to have as a backup.
10. Operations staff emails the information from the department's internal shared drive to the O&M Administrative staff.

Operations: SAP Receiving

1. O&M Administrative staff receive the emails with the attached supporting documentation and will perform the "Receiving" function of this chemical in the Materials Management module in SAP (Agency's Financial system).
2. As part of the "Receiving" function, O&M Administrative staff must attach the supporting documentation received at the time of delivery from the vendor. Since this information is provided via email, O&M Administrative staff temporarily saves the file to the local drive. (Note: Documents/files saved on the drives of laptops/desktops are backed up using OneDrive (Cloud computing).)
3. During the "Receiving" process, O&M Administrative staff retrieves the supporting documentation from the drive on the laptop/desktop and attaches the documentation in SAP.
4. After "Receiving" has been completed, an email is forwarded to AP to provide notification that the "Receiving" function has been performed.

Accounts Payable: Payment Processing

(This process still pending confirmation by Accounting staff)

1. On the date of delivery and/or soon thereafter, Vendor invoices are mailed via post mail or emailed to the AP group email address.
2. Invoices received by AP are date-stamped:
 - Hardcopy invoices are date-stamped, scanned daily, and cataloged by AP staff.
 - Electronic invoices are electronically stamped when received by AP Staff.
3. (*New step as of July 2021*) All invoices are entered into SAP and posted to the "Held Invoices" feature (a database to "park and hold" invoices). The information entered in the database includes vendor name, invoice number, invoice amount, etc. Once an invoice is entered into this "Held Invoices", it is stored as a temporary document in the temporary table until further processing by AP staff in SAP.
 - When AP staff review a vendor's invoice, they are unable to identify the Agency department based on the information contained in the invoice. Thus, AP staff relies on either the "Receiving" to be performed for the goods in SAP and/or the department to reach out to AP to determine the status of the invoice. AP staff will only research and reach out when the invoices have been held for an extended period.
4. As of July 2021, the starting point for processing payments is the "Held Invoices feature" in SAP. AP staff will select the invoice for review, confirm the data entered, determine if the correct PO number is populated and if not, then researches and enters the correct PO number. Once PO Number is entered, AP staff reviews to determine if the "Receiving" has been performed.
 - If "Receiving" has not been performed, then the invoice will be placed back on hold and continue to stay in the queue in the "Held Invoices feature" in SAP.
 - If "Receiving" has been performed, then AP staff proceeds with the process to perform the 3-way match.
5. After "Receiving" has been completed by O&M, AP will perform a 3-way match to compare the information on the PO, Bill of Lading or other shipping documents, and the invoice. Note: AP staff will address adjustments to the dollar amounts during the 3-way matching process. When all the information agrees and/or matches, then AP staff will process the invoice for payment.
6. Invoice will be paid in the next, regularly scheduled payment cycle. Chemical vendors are paid via ACH.

Receiving Process for Agency Chemicals

For all deliveries, a **Receiving** function must be performed in the Agency's financial system (SAP). The purpose of performing the receiving function is to ensure someone other than the individual who places the order and processes payment, verifies, and confirms the information of the delivered goods (quantities, prices, etc.). The table below provides the quantity of the receiving transactions performed by O&M staff:

Number of times the Receiving Function was Performed for Chemicals				
General Ledger Account No.	G/L Account name	Vendor Name	FY 2019/20⁽¹⁾	FY 2020/21⁽¹⁾
530012	Aluminum Sulfate	Thatcher Company of California Inc	25	26
530016	Sodium Hypochlorite	Olin Corp	533	550
530020	Sodium Bisulfite	Univar Solutions	81	68
530024	Ferric Chloride	California Water Technologies	147	196
530025	Flospers 30 S	Polydyne/Polypure Inc.	12	17
530028	Polymer ⁽²⁾	Aqua Ben Corporation ⁽²⁾	110	108
Totals			908	965

⁽¹⁾Source: Agency's Financial System (SAP transaction code ZFM_Budget_Var – Budget vs. Actual Variance Report), Individual General Ledger account drilled down to the transactions listed in the Document Journal.

- (1) Information is based on the Material Document Numbers issued in the Agency's Financial system to calculate the number of times and/or quantify the amount of Receiving that was performed, IA first ran the Budget vs Actual Variance Report for each fiscal year. Then, IA navigated to the General Ledger Accounts (530012 – 530028) and selected the amount listed in the actual column to drill down further to view all the transactions that supported the balance in the Document Journal. IA eliminated any transactions that were not related to Receiving and/or where Receiving was reversed, and then counted and summarized the data (*by the Material Document Number issued in SAP*) to determine the number of times receiving was performed for each chemical for each fiscal year.
- (2) From this vendor, majority of the transactions are two chemicals are received against two separate PO numbers but assigned the same Goods Receipt (GR) Number in SAP. To truly quantify the amount of *Receiving* performed for this chemical, IA eliminated any transactions whereby Receiving was reversed and counted the remaining number of line items.

Number of days between Physical Delivery and SAP Receiving completed Compared the Document Date (Delivery Date) and the Processing Date (1) FY 2019/20								
Number of days between Delivery and Receiving in SAP ⁽¹⁾	Thatcher Company of California	Olin Corporation	Univar Solutions	California Water Technologies	Polydyne	Aqua Ben Corporation		
	Aluminum Sulfate	Sodium Hypochlorite	Sodium Bisulfite	Ferric Chloride	Flospers 30S	Polymer	TOTAL	%
0 – 5 days	3	101	15	19	3	21	162	18%
6 – 15 days	8	216	45	61	5	49	384	42%
16 – 30 days	5	121	11	26	2	26	191	21%
31 - 60 days	9	70	7	23	1	11	121	13%
61 – 90 days	0	20	3	10	0	2	35	4%
91 days or more	0	5	0	8	1	1	15	2%
Totals items	25	533	81	147	12	110	908	
Least Number of days for Receiving to be performed	0	0	0	0	1	0		
Highest Number of days for Receiving to be performed	49	132	85	145	113	112		
Average Number of days for Receiving to be performed	22 days	19 days	15 days	27 days	21days	16 days		

*Source: Agency's Financial System (SAP transaction code ZFM_Budget_Var – Budget vs. Actual Variance Report), Individual General Ledger account drilled down to the transactions listed in the Document Journal.

- (1) When the Receiving function is performed in SAP (transaction code MIGO – Goods Receipt Purchase Order), the date entered for the Document Date field is the date that Agency staff physically received the item and is noted on the supporting documentation (i.e., Bill of Lading, etc.).

Number of days between Physical Delivery and SAP Receiving completed Compared the Document Date (Delivery Date) and the Processing Date (1) FY 2020/21								
Number of days between Delivery and Receiving in SAP ⁽¹⁾	Thatcher Company of California	Olin Corporation	Univar Solutions	California Water Technologies	Polydyne	Aqua Ben Corporation		
	Aluminum Sulfate	Sodium Hypochlorite	Sodium Bisulfite	Ferric Chloride	Flospers 30S	Polymer	TOTAL	%
0 – 5 days	4	141	17	57	1	20	240	25%
6 – 15 days	9	150	15	66	1	38	279	29%
16 – 30 days	7	114	20	36	7	28	212	22%
31 - 60 days	3	98	10	35	7	19	172	18%
61 – 90 days	3	41	5	2	1	3	55	6%
91 days or more	0	6	1	0	0	0	7	1%
Totals items	26	550	68	196	17	108	962	
Least Number of days for Receiving to be performed	0	0	0	0	3	0		
Highest Number of days for Receiving to be performed	69	104	398	72	127	77		
Average Number of days for Receiving to be performed	21 days	22 days	28 days	16 days	35 days	18 days		

Delays in Receiving (also, refer to the flowchart and diagrams):

Possible reasons for delays in completing the Receiving function in SAP:

- Required supporting documentation has either been misplaced or lost.
- Required supporting documentation is not provided to the Administrative staff in a timely manner (i.e., Bill of Lading, Freight provider, etc.).
- Delays in obtaining the PO Numbers for each new fiscal year.
 - At the beginning of each fiscal year, CAP is responsible for establishing new Purchase Orders, for each chemical, based on the Purchase Requests established by O&M.
- PO Numbers do not have sufficient funds available for payment to be processed by the AP function (budget block).
- Administrative staff only become aware a chemical has been delivered when:
 - Supporting documentation is provided via email or other,
 - Staff review the Chemical Tracking spreadsheet to determine if there have been any chemical deliveries and the supporting documentation has not been provided to them,
 - AP contacts staff for receiving function to be performed
 - Vendor contacts the Agency requesting an overdue payment
- Staff workload, assignments and other duties, or staff absences
- Other unique situations

Payment Process for Agency Chemicals

At the time chemicals are ordered by O&M staff, the vendor will issue an invoice, to the Agency, for payment. The invoice is sent directly to Accounts Payable (AP) via email or regular mail (most of the time email). The table below shows the number of invoices AP processed for payment during the last four fiscal years:

Number of Invoices Processed for Payment for Chemicals					
Vendor Name	Chemical Purchased	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Aqua Ben Corporation	Daft and Centrifuge Polymer	74	102	107	106
California Water Technologies	Ferric Chloride	187	164	157	179
Olin Corp	Sodium Hypochlorite	567	506	543	540
Polydyne Inc	Flospers 30 S	10	8	13	16
Thatcher Company of California	Aluminum Sulfate	2	8	25	26
Univar Solutions USA Inc	Sodium Bisulfite	67	102	93	68
Total Number of Invoices Processed for Chemicals		907	890	938	935

Source: Accounts Payable Monitoring Report ran on October 4, 2021, Payment Type – Vendor PO Invoice (VI) and/or Vendor AP Invoice (VM).

Late payments occur when the payment is submitted to the vendor after the invoice due date (also payment terms). All chemical invoices are due at Net30, meaning 30 days after

the invoice date. The chart that follows shows the total and percentages of invoices paid late and on time. And the chart after shows the total number of days after the due date

Late Payment Analysis - Chemicals Invoices								
	FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21	
Payment Status⁽¹⁾:	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	366	40%	432	49%	432	46%	534	57%
Late	541	60%	458	51%	506	54%	401	43%
Totals	907	100%	890	100%	938	100%	935	100%

Source: Accounts Payable Monitoring Report ran on October 4, 2021

Chemical Invoices Only					
Number of Invoices Paid Late by Days Late, After the Due Date					
Number of Invoices paid After the Invoice Due Date	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21⁽²⁾	TOTAL and %s for FY21
Invoices paid on time	366	432	432	534	57% of total
1-30 days late	491	423	396	296	31%
31-60 days late	39	29	65	84	9%
61-90 days late	10	6	29	12	1%
91 days or more	1	0	16	9	>1%
Total Late	541	458	507	401	
Total Invoices	907	890	938	935	
Average Number of days paid late	15 days	12 days	22 days	22 days	
Least number of days - paid late	1	1	1	1	
Highest number of days - paid late	1106	71	167	179	

Delays in Processing Payments (also refer to the flowchart and diagrams):

Possible reasons for delays in processing invoices for payment and issuing payments are:

- Lost/misplaced invoice or invoice that was never received by AP staff
- Receiving function has not been performed (this is the biggest reason)
- Unable to complete the 3-way match (PO, delivery/shipping documents and the invoice)
- PO Numbers do not have sufficient funds available for payment to be processed by the AP function (budget block).
- Lack of monitoring reports and using aging reports to highlight overdue items and items past the payment terms.
- Need for reports or system alerts that flag items that will be due, providing sufficient time for staff to research and resolve items prior to due date to ensure payment is sent within terms.
- Staff workload, assignments and other duties, or staff absences
- Other unique situations

Background Information about:

Operations & Maintenance Department & Chemicals used/required

O&M's Department mission statement:

MISSION STATEMENT
<p>Operations Division is committed to:</p> <ul style="list-style-type: none">• Producing safe, cost effective, compliant water, recycled water, renewable energy, and compost while ensuring all assets are operating at optimum efficiency and reliability• Maximizing groundwater recharge while meeting recycled water customer demands• Maintaining a highly trained, motivated, friendly, and knowledgeable workforce that utilizes industry best practices• Delivering a safe and hospitable work environment for all staff and visitors• Providing staff with secure and up-to-date operational and business information technologies that meets industry cybersecurity requirements and the needs of the Agency.

According to the Agency's Fiscal Year (FY) 2021/22 and 2022/23 *Operating and Capital Program Budget* document The Operations and Maintenance Department within the Operations Division is responsible for the business operations and day-to-day management of the Agency's facilities:

5 Water Recycling Plants:

- Regional Water Recycling Plant No. (RP-1)
- Regional Water Recycling Plant No. (RP-2) (*Bio-solids only*)
- Carbon Canyon Water Recycling Facility (CCWRF)
- Regional Water Recycling Plant No. (RP-4)
- Regional Water Recycling Plant No. (RP-5)

Additional Operations:

- Inland Empire Regional Composting Facility (IERCF)
- Chino I Desalter (CDA) - Potable Water Facility
- 160 miles of Sewer Collection system
- 4 Sewage Lift stations
- Recycled Water distribution and storage system
- 19 Supply water well sites
- 19 Groundwater recharge sites
- Headquarters Buildings

The O&M Department is separated into three main areas to ensure adequate coverage of services throughout IEUA's geographical service area. The table below identifies the responsibilities of each area and total employees assigned to each:

Area & Plants	Total Employees
Operations & Maintenance – North	
Regional Plant No. 1, Regional Plant No. 4, 19 Groundwater Recharge sites, and Recycled Water Distribution system.	53
Operations & Maintenance - South	
Regional Plant No. 5, Carbon Canyon Water Recycling Facility, Regional Plant No. 2, Regional Sewer System, Non-Reclaimable Waste System, Facilities Management, and Chino I Desalter	49
IERCF	
Biosolids Compositing facility	21
Total Employees as of September 7, 2021 (per IEUA Org Chart)	123

Core Components – Wastewater Treatment Plants

To operate the Wastewater Treatment plants (water recycling plants/facilities), there are four major elements required: *Labor, Utilities (Electricity), Chemicals and Biosolids*. The table below provides the related expenses for the last four fiscal years (excluding labor).

IEUA Only Expenses				
Component	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Utilities (Electricity Only)	\$ 7,480,380	\$ 7,169,473	\$ 6,780,706	\$ 8,812,228
<i>Chemicals</i>	<i>3,965,678</i>	<i>4,638,474</i>	<i>5,146,823</i>	<i>5,527,042</i>
Biosolid Recycling	4,092,127	4,334,529	4,633,445	4,633,828
Totals	\$ 15,538,184	\$ 16,142,477	\$ 16,560,974	\$ 18,973,098

Source: Agency's Financial System (SAP transaction code ZFM_Budget_Var – Budget vs. Actual Variance Report)

Chemicals are the second largest expense necessary to run the Agency's water recycling plants and facilities. The process to pay for electricity and chemical expenses is different processes and both are equally important to operate the Agency's treatment plants.

Chemicals

Table below summarizes the expenses related to the different chemicals needed to operate the Agency's plants:

General Ledger Account Name	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Chemicals	\$ 21,329	\$ 26,312	\$ 15,773	\$ 8,150
Aluminum Sulfate	86,261	78,091	93,159	99,267
Anthracite	-	34,966	-	-
Sodium Hypochlorite	1,425,400	1,909,201	2,092,214	2,304,016
Sodium Bisulfite	184,150	307,310	223,594	287,228
Ferric Chloride	692,18	593,351	736,524	987,964
Flospers 30	79,423	51,111	101,543	138,503
Polymer	1,476,977	1,638,133	1,884,015	1,701,914
Totals by Fiscal Year	\$ 3,965,678	\$ 4,638,474	\$ 5,146,823	\$5,527,042

Source: Agency's Financial System (SAP transaction code ZFM_Budget_Var – Budget vs. Actual Variance Report)

For each of the chemicals, the Agency has established a contract with the vendor for pricing, terms, and conditions. The table below identifies the vendor name, type of chemical procured, and the amount paid to these vendors during the last four fiscal years:

Vendor Name	Chemical Purchased	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Olin Corporation (Chlor Alkal Products)	Sodium Hypochlorite (Bleach)	\$1,314,139	\$1,761,479	\$1,961,645	\$2,171,652
Aqua Ben Corporation	Daft and Centrifuge Polymer	1,405,352	1,688,392	1,823,150	1,828,998
California Water Technologies	Ferric Chloride	701,964	625,299	709,284	944,242
Univar Solutions	Sodium Bisulfite	175,213	294,494	176,697	356,926
Polydyne/Polypure Inc.	Flospers 30	86,230	43,805	79,838	150,225
Thatcher Company of California	Aluminum Sulfate	3,775	25,566	69,855	108,644
Chemtrade Chemical Corporation	Aluminum Sulfate	71,100	63,855	-	-
Total Amounts Paid		\$3,757,773	\$4,502,890	\$4,820,140	\$5,560,687

Importance of Chemicals

IEUA provides sewage utility services to residents living in the 242-square mile service area located in western San Bernardino County. To provide wastewater treatment services, the Agency purchases different types of chemicals that are utilized as part of the treatment process. Chemicals are **critical** to the wastewater treatment process. The table below shows the importance and the impact if the Agency is unable to purchase the required chemicals, and/or if the chemical becomes unavailable for delivery due to being on credit hold or if there is a product shortage. For each individual chemical purchased by the Agency, there is only **one contract with one vendor** in place. In the event, the Agency's primary chemical vendor is unable to fulfill and/or deliver the chemical, the Agency does not have any backup vendors that can be called upon to purchase and deliver the required chemicals.

Name of the Chemical	Purpose of the Chemical	Back-up Vendor	Chemicals required for the following Agency Permits	Risk if chemical was not received
Sodium Hypochlorite (Bleach)	Sodium Hypochlorite is a bleach or disinfectant, and is capable of inactivating pathogens like bacteria, viruses, fungi.	None	National Pollutant Discharge Elimination System (NPDES)	NPDES permit violation, and there is a risk to public safety in not treating properly and risk of non-compliance.
Daft and Centrifuge Polymer	Daft Polymer - Used to coagulate solids enabling them to thicken and float. Centrifuge Polymer – Used to coagulate solids improving centrate clarity, increases capacity, improves the conveying characteristics of the discharged solids, and increases cake dryness.	None	No permit requirement	Unable to thicken solids and extremely poor dewaterability. Dewatering, hauling and NRW costs would drastically increase.
Ferric Chloride	Ferric Chloride is used to reduce hydrogen sulfide compounds in wastewater. Additional benefits include increased solids settleability and odor control.	None	South Coast Air Quality Management (AQMD)	Unable to reduce hydrogen sulfides in the anaerobic digestion process and AQMD permit violation at RP-2.
Sodium Bisulfite	Used for Dechlorination of disinfected wastewater to prevent harmful exposure of chlorine and chlorine compounds on plant and aquatic life.	None	National Pollutant Discharge Elimination System (NPDES)	NPDES permit violation, and there is a risk to public safety in not treating properly and risk of non-compliance.
Flospers 30S	Used to prevent struvite scale-forming precipitates in wastewater treatment applications.	None	No permit requirement	Struvite formations in pumps and piping creates piping obstructions and mechanical failures reducing overall treatment capacity.
Aluminum Sulfate	Used to coagulate solids prior to tertiary filtration.	None	National Pollutant Discharge Elimination System (NPDES)	NPDES permit violation, and there is a risk to public safety in not treating properly and risk of non-compliance.

IA suggests O&M work with CAP to research and determine if it is feasible to establish back up contracts with vendors that can provide the required chemicals to treat wastewater, in the event, the current vendor is unable to deliver the required chemicals.

Chemical Deliveries

Chemicals are delivered in one of two ways to the Agency's treatment plants; chemical tanker truck that attaches directly to the IEUA pumps or semi-trailer (big rig) that requires the chemicals be offloaded with a forklift. Attachment 2 provides pictures of IAs observations of the deliveries. There is almost no risk of chemicals being stolen or lost because of the procedure to transfer (pump to pump) or the weight of the bulk (see pictures attached).

Vendor Name	Chemical Purchased	Transportation Method	Delivery Method	<i>Risks of the chemicals being stolen from the Agency's Treatment Plants?</i>
Aqua Ben Corporation	Daft Polymer (Hydrofloc 748E or 750A) Centrifuge Polymer (Hydrofloc 750A)	Semi-trailer	Large, plastic totes	None, Forklift is required to maneuver the tote carrying the chemical. Each tote weighs approximately 2,300 pounds.
California Water Technologies	Ferric Chloride	Chemical Tanker Truck	Pump-to-pump	None. Chemical is delivered by the tanker truck and pumped directly through a hose into the tank. Chemical tanks are physically secured to the ground.
Olin Corp	Sodium Hypochlorite	Chemical Tanker Truck	Pump-to-pump	
Polydyne Inc	Flospers 30 S	Semi-trailer	Large, plastic totes	None, Forklift is required to maneuver the tote carrying the chemical. Each tote weighs approximately 2,600 pounds.
Thatcher Company of California	Aluminum Sulfate	Chemical Tanker Truck	Pump-to-pump	None. Chemical is delivered by the tanker truck and pumped directly through a hose into the tank. Chemical tanks are physically secured to the ground.
Univar Solutions USA Inc	Sodium Bisulfite	Chemical Tanker Truck	Pump-to-pump	

Please contact the Internal Audit Department for questions or additional information. IA will continue to complete all audits approved by the Board in the Annual Audit Plan and work with the Strike Team and all staff, to evaluate other Procure to Pay processes and provide recommendations to streamline processes. IA is available to provide additional reviews and assistance in evaluating implementation and corrective actions and additional controls to ensure vendor invoices are paid within terms.

Attachment
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	Olin Corporation (Olin Chlor Alkali Products)	Sodium Hypochlorite, 12.5% (Bleach)



Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	Polydyne Inc.	Floserse 30 S



Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	Thatcher Company of California	Aluminum Sulfate



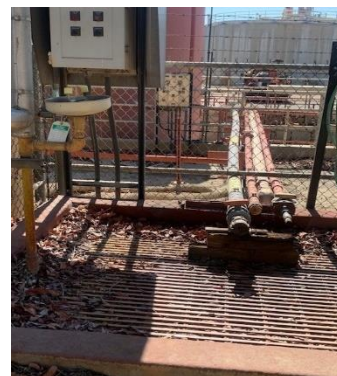
Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	Univar Solutions USA Inc	Sodium Bisulfite



Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	California Water Technologies	Ferric Chloride



Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 1	Aqua Ben Corporation	Daft and Centrifuge Polymer



Attachment 2 (Continued)
Chemical Deliveries

Location	Vendor Name	Chemical Name
Regional Water Recycling Plant No. 2	California Water Technologies	Ferric Chloride



Attachment 3

Procure to Pay Process for Chemical purchases/transactions Selected for Detailed Review and Testing
Payment Terms- Net 30 days (All vendors and transactions)
Fiscal Year 2020/21

Vendor Name & Chemical Purchased	Purchase Order Number	Goods Receipt Number/ Invoice Receipt Number	Date Chemical was Delivered (Document Date In SAP) And Invoice Date (A)	Date AP Received the Invoice from Vendor (B)	Date Receiving Performed in SAP (C)	Date Processed by AP in SAP (D)	Date Paid (E)	Number of Days between Physical Delivery and Receiving in SAP (A)-(C)	Number of Days from the Invoice Date to the Date AP Received the Invoice (A)-(B)	Number of Days between the completion of Receiving by O&M and the processing Invoice for Payment by AP (not paid yet) (C)-(D)	Number of days for the Agency to pay the Invoice AFTER the invoice due date (A)+30 days (Payment Terms) = Invoice Due Date – (E)	Number of Days from Physically Receiving the Chemical to Date Paid (A)-(E)
Aqua Ben Corporation (Daft and Centrifuge Polymer)	4500036319	5000175420/ 5100127849	9/3/2020	9/3/2020	11/24/2020	11/24/2020	11/25/2020	82	0	0	53	83
	4500037004	5000175795/ 5100128248	9/24/2020	9/24/2020	12/7/2020	12/7/2020	12/10/2020	74	0	0	47	77
	4500037010	5000176982/ 5100128974	11/25/2020	11/30/2020	12/30/2020	12/31/2020	1/7/2021	35	5	1	13	43
	4500037040	5000182629/ 5100131404	3/23/2021	3/23/2021	5/19/2020	5/19/2021	5/20/2021	57	0	0	28	58
	4500037010	5000183263/ 5100132252	4/27/2021	4/27/2021	6/7/2021	6/7/2021	6/10/2021	41	0	0	14	44
California Water Technologies (Ferric Chloride)	4500036305	5000171851/ 5100125713	7/1/2020	7/8/2020	8/28/2021	8/31/2020	9/3/2020	58	7	3	34	64
	4500036302	5000178016/ 5100129620	11/16/2020	11/19/2020	1/27/2021	1/27/2021	1/28/2021	72	3	0	43	73
	4500036302	5000178017/ 5100129621	11/30/2020	12/1/2020	1/27/2021	1/27/2021	1/28/2021	58	1	0	29	59
	4500036305	5000177609/ 5100129353	12/7/2020	12/14/2020	1/15/2021	1/18/2021	1/21/2021	39	7	3	15	45
	4500036305	5000178580/ 5100129996	12/26/2020	1/5/2021	2/7/2021	2/8/2021	2/11/2021	43	10	1	17	47
Olin Corp (Sodium Hypochlorite)	4500034265	5000171388/ 5100127338	6/19/2020 6/10/2020 (Invoice Date)	6/16/2020	8/13/2020	11/5/2020	11/5/2020	55	6	84	118	139
	4500036325	5000173428/ 5100126930	8/7/2020	Unable to measure, No invoice available	10/7/2020	10/22/2020	10/22/2020	61	Unable to measure, No invoice available	15	46	76

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 37 of 38

Vendor Name & Chemical Purchased	Purchase Order Number	Goods Receipt Number/ Invoice Receipt Number	Date Chemical was Delivered (Document Date In SAP) (A)	Date AP Received the Invoice from Vendor (B)	Date Receiving Performed in SAP (C)	Date Processed by AP in SAP (D)	Date Paid (E)	Number of Days between Physical Delivery and Receiving in SAP (A)-(C)	Number of Days from the Invoice Date to the Date AP Received the Invoice (A)-(B)	Number of Days between the completion of Receiving by O&M and the processing Invoice for Payment by AP (not paid yet) (C)-(D)	Number of days for the Agency to pay the Invoice AFTER the invoice due date (A)+30 days (Payment Terms) = Invoice Due Date – (E)	Number of Days from Physically Receiving the Chemical to Date Paid (A)-(E)
	4500036325	5000172764/ 5100128182	9/12/2020 9/11/2020 (Invoice Date)	12/2/2020	9/18/2020	12/2/2020	12/3/2020	6	82	75	53	82
Olin Corp (Sodium Hypochlorite)	4500036303	5000173563/ 5100127771	10/9/2020	Unable to measure, No invoice available	10/12/2020	11/19/2020	11/19/2020	3	Unable to measure, No invoice available	38	11	41
	4500037236	5000177654/ 5100129457	10/21/2020	10/27/2020	1/16/2021	1/20/2021	1/21/2021	87	6	4	62	92
	4500037236	5000177656/ 5100129464	11/13/2020	Unable to measure, No invoice available	1/16/2021	1/20/2021	1/21/2021	64	Unable to measure, No invoice available	4	39	69
	4500037236	5000177658/ 5100131791	11/23/2020	4/1/2021	1/16/2021	4/7/2021	4/8/2021	54	129	81	106	136
	4500036883	5000178403/ 5100129950	12/14/2020	12/29/2020	2/3/2021	2/3/2021	2/4/2021	51	15	0	22	52
	4500037236	5000180852/ 5100131792	1/26/2021	1/27/2021	4/1/2021	4/7/2021	4/8/2021	65	1	6	42	72
	4500037236	5000180854/ 5100131794	2/3/2021	2/4/2021	4/1/2021	4/7/2021	4/8/2021	57	1	6	34	64
	4500036883	5000180726/ 5100132997	3/26/2021	5/26/2021	3/30/2021	5/26/2021	5/27/2021	4	61	57	32	62
	4500037236	5000183638/ 5100132676	4/21/2021	4/22/2021	6/15/2021	6/16/2021	6/17/2021	55	1	1	27	57
Polydyne Inc (Flosperse 30S)	4500036194	5000170761/ 5100127552	3/18/2020	8/3/2020	7/23/2020	11/12/2020	11/12/2020	127	7	112	78	239
	4500036194	5000170762/ 5100127553	6/1/2020	9/3/2020	7/23/2020	11/12/2020	11/12/2020	52	8	112	48	164
	4500036194	5000171969/ 5100127555	8/25/2020	No AP Received date listed	9/1/2020	11/12/2020	11/12/2020	7	Unable to measure, No invoice available	72	21	79
	4500036194	5000178571/ 5100130160	12/14/2020	12/21/2020	2/4/2021	2/10/2021	2/11/2021	52	7	6	29	59
	4500036194	5000179792/ 5100131087	1/20/2021	1/21/2021	3/3/2021	3/10/2021	3/11/2021	42	1	7	20	50

Accounts Payable Operational and Internal Control Audit Report
Review of Procure to Pay Processes for Chemicals
November 24, 2021
Page 38 of 38

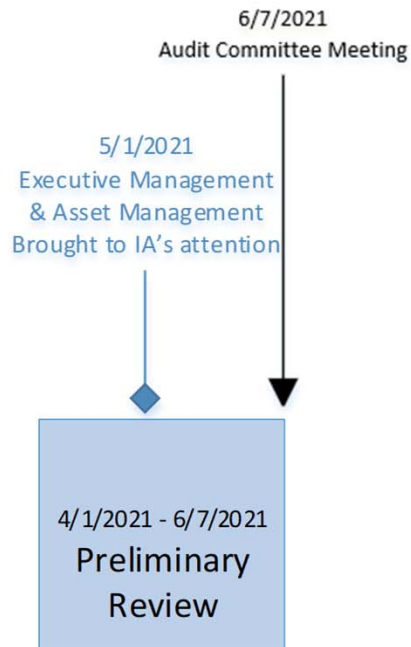
Vendor Name & Chemical Purchased	Purchase Order Number	Goods Receipt Number/ Invoice Receipt Number	Date Chemical was Delivered <i>(Document Date In SAP)</i>	Date AP Received the Invoice from Vendor	Date Receiving Performed in SAP	Date Processed by AP in SAP	Date Paid	Number of Days between Physical Delivery and Receiving in SAP (A)-(C)	Number of Days from the Invoice Date to the Date AP Received the Invoice (A)-(B)	Number of Days between the completion of Receiving by O&M and the processing Invoice for Payment by AP (not paid yet) (C)-(D)	Number of days for the Agency to pay the Invoice AFTER the invoice due date (A)+30 days = Invoice Due Date – (E)	Number of Days from Physically Receiving the Chemical to Date Paid (A)-(E)
			(A)	(B)	(C)	(D)	(E)					
Thatcher Company of California <i>(Aluminum Sulfate)</i>	4500036205	5000172711/ 5100127094	9/15/2020	9/17/2020	9/17/2020	10/29/2020	10/29/2020	2	2	42	14	44
	4500036205	5000176072/ 5100128603	10/2/2020	10/12/2020	12/10/2020	12/16/2020	12/17/2020	69	10	6	46	76
	4500036205	5000175339/ 5100128085	10/22/2020	11/23/2020	11/23/2020	12/1/2020	12/3/2020	32	32	8	12	42
	4500036205	5000178999/ 5100130307	12/10/2020	12/21/2020	2/16/2021	2/17/2021	2/18/2021	68	11	1	40	70
	4500036205	5000179010/ 5100130308	12/15/2020	12/22/2020	2/16/2021	2/17/2021	2/18/2021	63	7	1	35	65
Univar Solutions USA Inc <i>(Sodium Bisulfite)</i>	4500036307	5000171091/ 5100129922	7/10/2020	8/7/2020	8/7/2020	2/3/2021	2/4/2021	28	28	180	179	209
	4500036201	5000170939/ 5100129924	7/30/2020 7/31/2020 <i>(Invoice Date)</i>	8/5/2020	8/4/2020	2/3/2021	2/4/2021	5	5	183	158	189
	4500036201	5000172710/ 5100129928	9/14/2020	9/21/2020	9/17/2020	2/3/2021	2/4/2021	3	7	139	113	143
	4500036888	5000174138/ 5100129933	10/9/2020	10/27/2020	10/27/2020	2/3/2021	2/4/2021	18	18	99	88	118
	4500037093	5000177622/ 5100129937	11/10/2020	12/29/2020	1/16/2021	2/3/2021	2/4/2021	67	49	18	56	86
	4500036888	5000176619/ 5100129943	12/15/2020	12/29/2020	12/22/2020	2/3/2021	2/4/2021	7	14	43	21	51
	4500037093	5000180661/ 5100131631	12/31/2020 1/1/2021 <i>(Invoice Date)</i>	1/5/2021	3/29/2021	3/31/2021	4/1/2021	88	4	2	60	91
	4500037093	5000182411/ 5100132607	3/20/2021	3/23/2021	5/13/2021	5/19/2021	5/20/2021	54	3	6	31	61



Accounts Payable Operational & Internal Controls Audit Review of Procure to Pay for Chemicals

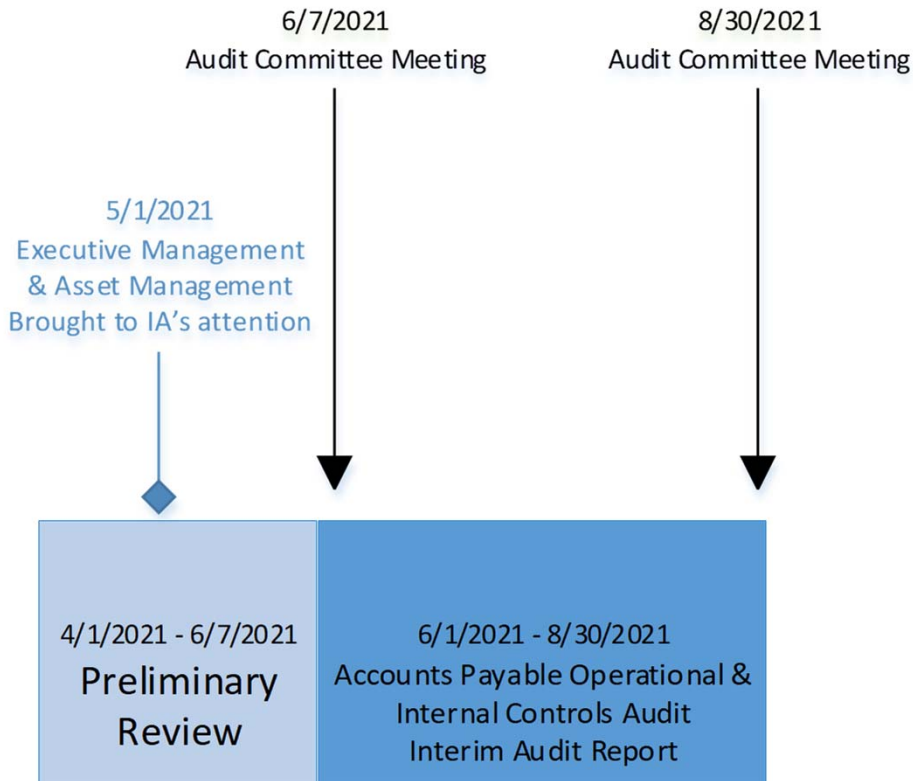
Teresa Velarde
Manager of Internal Audit
December 6, 2021

Internal Audit Department Timeline



- Defect Elimination
- IA evaluated various reports and information
- During April and May
- IA determined this would be incorporated as part of the Accounts Payable Audit
- June Audit Committee Meeting - proposed the Accounts Payable Operational & Internal Control Audit
- Approved

Internal Audit Department Timeline

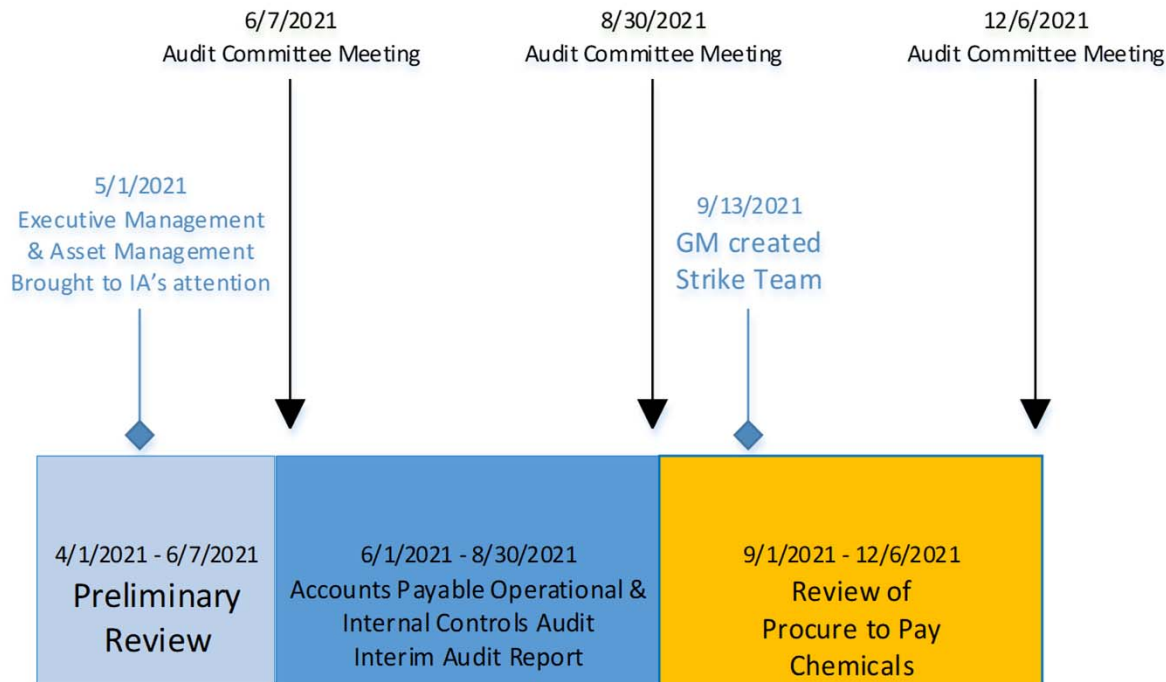


Results of the Interim Audit Report:

Agency invoices are not being paid by the invoice due date and/or within the payment terms

- Identified through audit results in 2010, 2011, 2013 and 2021
- Identified through accounts payable payment analysis
- Identified through discussions with employees from various departments
- Applies to different types of vendors and various types of services, goods and products

Internal Audit Department Timeline



Audit objective for the Internal Audit review:

- Evaluate the P2P process for Chemicals
- Evaluate various financial transactions and documents
- Evaluate the delivery and receiving function
- Evaluate the invoice processes
- Walk-through observations of the P2P process
- Observations of Chemical deliveries at plants
- Identify bottlenecks in the process
- Evaluate if existing reports provide continuous monitoring capabilities
- Make recommendations to improve efficiencies

GM created the Strike Team with members from:

- Asset Management
- Internal Audit
- Accounting
- Contracts and Procurement
- Business Information Services
- Engineering

Problem

Agency invoices are not being paid by the invoice due date and/or within the payment terms

Risks to IEUA due to late payments to vendors

- Being placed on credit hold and not being able to order goods for critical services
- Vendors not willing to do business with IEUA in the future
- Possible fees imposed or higher prices offered at the time of establishing contracts
- Harmed vendor relationships
- Reputation/image of IEUA may be damaged

Internal Audit Observations & Recommendations

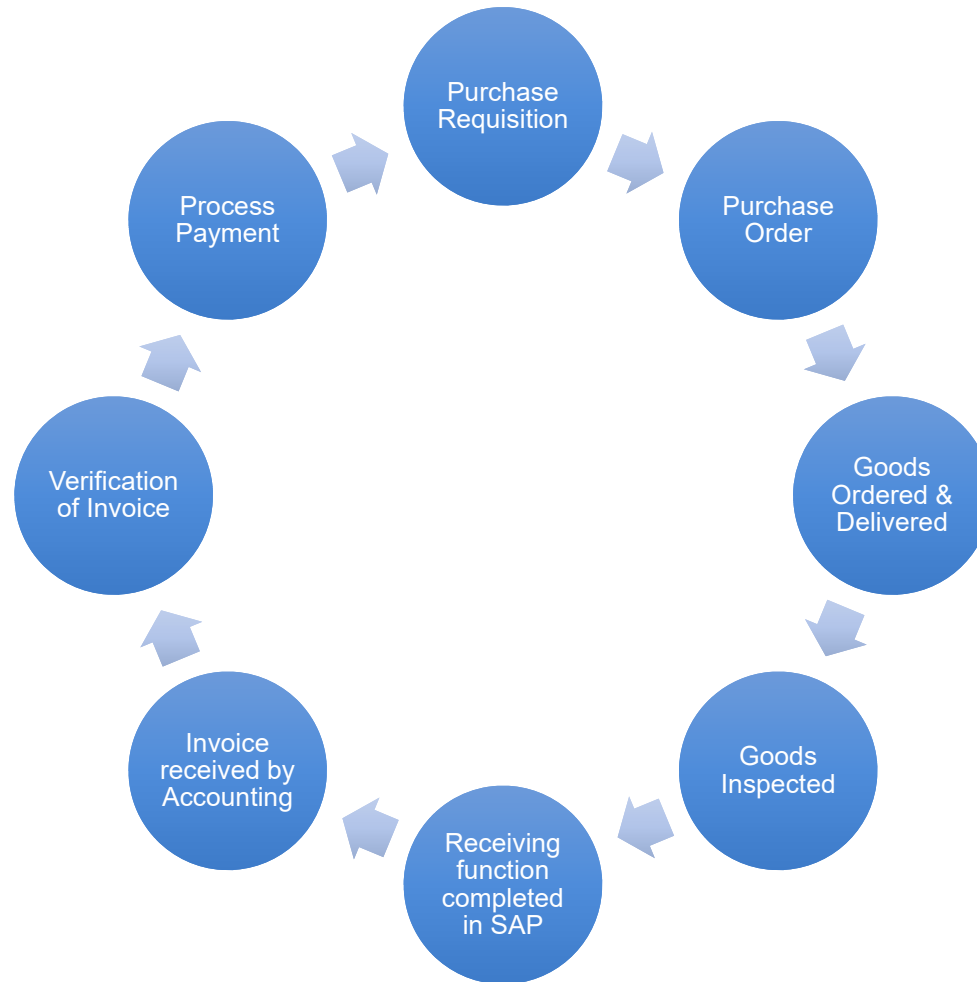
There are delays in performing the Receiving function, due to:

- *Processes and procedures require changes to make them more efficient*
- *Visibility of transactions through monitoring reports*
- *PO & PR requirements and funding needs*
- *Training & Standard Operating Procedures (SOPs)*
- *Communication, cross-communication & customer service approach*
- *Efficient processes to ensure receiving is completed timely*

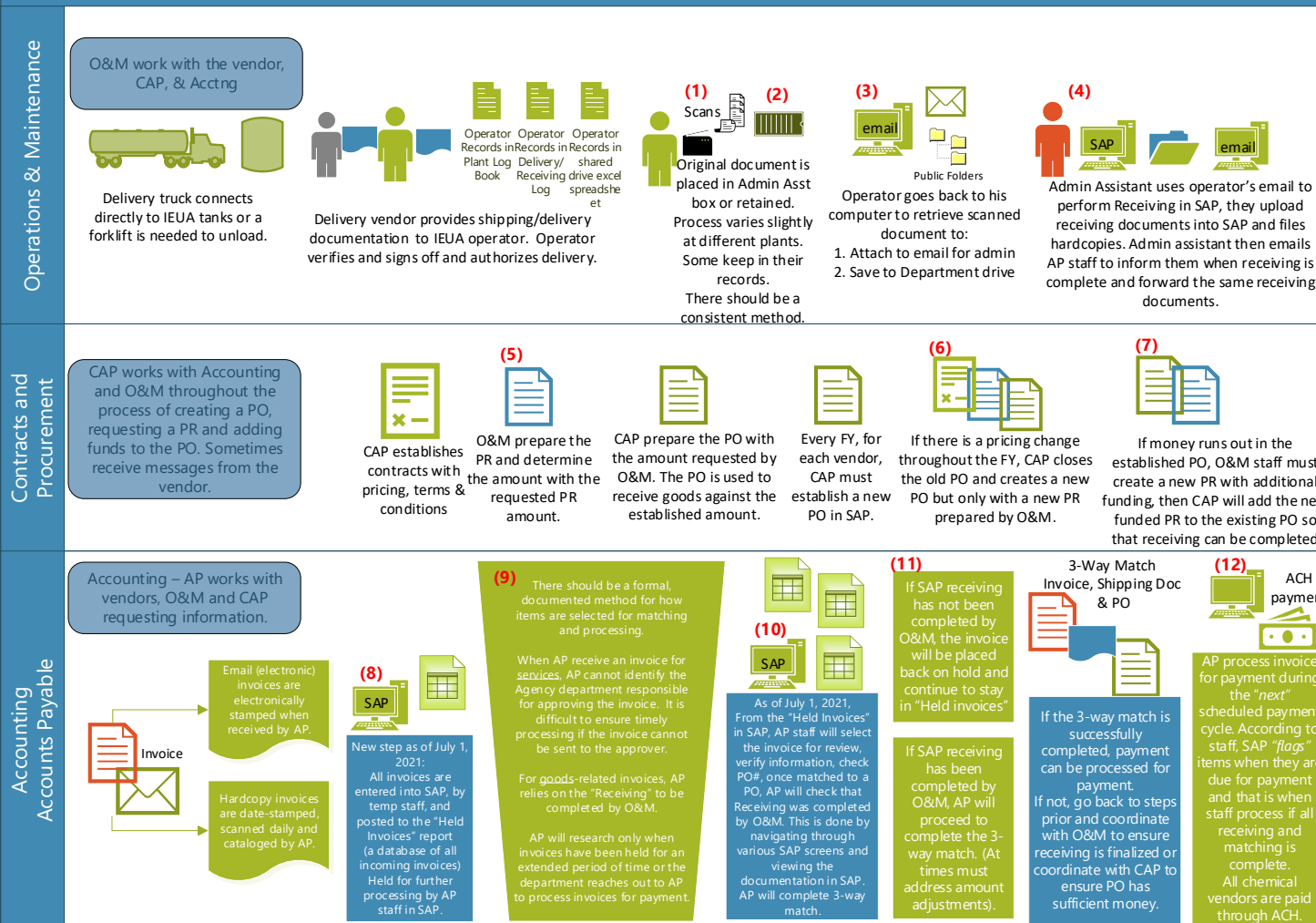
There are delays in processing invoices prior to the due date, due to:

- *Processes and procedures require changes to make them more efficient*
- *Visibility of transactions through monitoring reports*
- *PO & PR requirements and funding needs*
- *Training & Standard Operating Procedures (SOPs)*
- *Communication, cross-communication & customer service approach*
- *Proactive approach and procedures to ensuring timely payment*

Procure-to-Pay Cycle for Goods



P2P for Chemicals
Process for Ordering, Receiving and Payment of Chemicals

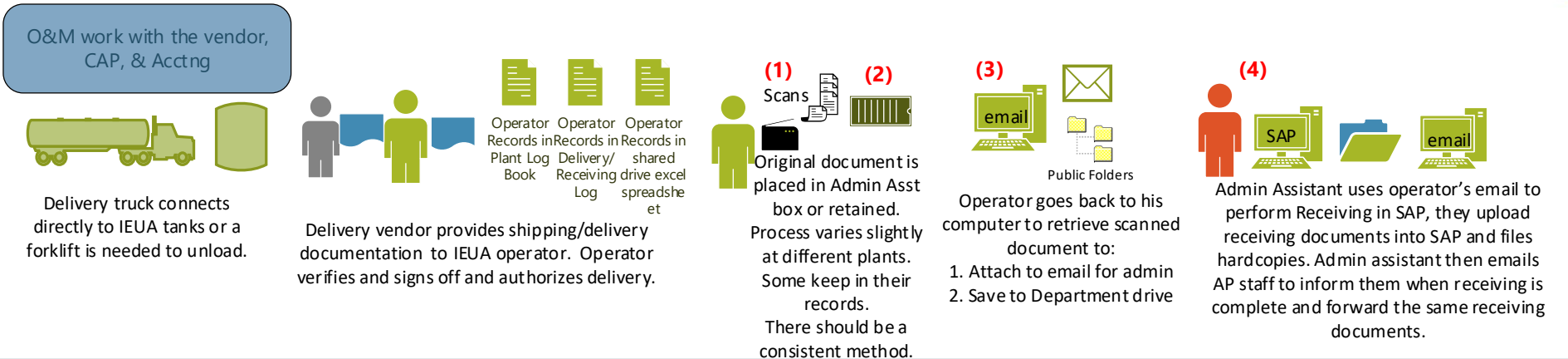


On Site Observations of Deliveries



Receiving Function

Operations & Maintenance



965 Receiving items performed - It takes an average of 23 days from delivery of goods to complete receiving function

Audit Findings

Processes People Technology

- Receiving Documentation can be delayed when sending to staff and/or misplaced/lost
- Technology tools are not easily accessible
- Delays in obtaining PO numbers at the beginning of the FY and/or when there is a pricing change
- Managing the multiple POs numbers for multiple areas throughout the FY
- Awareness and notification of Chemical deliveries
- Administrative Staff workload, priorities, and responsibilities

Review of P2P for Chemical Purchases

Chemical Expenses

Chemical Expenses				
Component	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Utilities (Electricity Only)	\$ 7,480,380	\$ 7,169,473	\$ 6,780,706	\$ 8,812,228
Chemicals	3,965,678	4,638,474	5,146,823	5,527,042
Biosolid Recycling	4,092,127	4,334,529	4,633,445	4,633,828
Totals	\$ 15,538,185	\$ 16,142,476	\$ 16,560,974	\$ 18,973,098

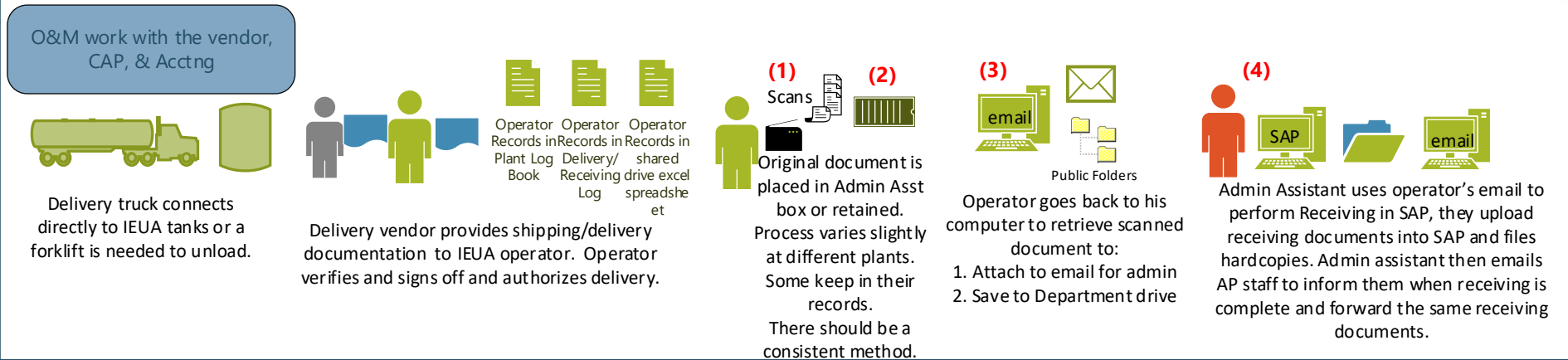
Receiving Analysis – FY 2020/21

Number of days between Physical Delivery and SAP Receiving completed Compared the Document Date (Delivery Date) and the Processing Date FY 2020/21								
Number of days <i>between Delivery and Receiving in SAP⁽¹⁾</i>	Thatcher Company of California	Olin Corporation	Univar Solutions	California Water Technologies	Polydyne	Aqua Ben Corporation	TOTAL	%
	Aluminum Sulfate	Sodium Hypochlorite	Sodium Bisulfite	Ferric Chloride	Flosperse 30S	Polymer		
0 – 5 days	4	141	17	57	1	20	240	25%
6 – 15 days	9	150	15	66	1	38	279	29%
16 – 30 days	7	114	20	36	7	28	212	22%
31 - 60 days	3	98	10	35	7	19	172	18%
61 – 90 days	3	41	5	2	1	3	55	6%
91 days or more	0	6	1	0	0	0	7	1%
Total items	26	550	68	196	17	108	965	
Least Number of days for Receiving to be performed	0	0	0	0	3	0		
Highest Number of days for Receiving to be performed	69	104	398	72	127	77		
Average Number of days for Receiving to be performed	21 days	22 days	28 days	16 days	35 days	18 days		

Overall Average
Number of days for
Receiving to be
performed

23 days

Recommendations for the Receiving Function



Audit Recommendations

Processes
People
Technology

- Leverage technology
- Streamline the handling of the supporting documentation
- Centralize the electronic supporting documentation
- Minimize the number of copies
- New, more efficient processes and continuous training
- Improved communications

Observations and Recommendations for the PO and PR processes

Contracts and Procurement

CAP works with Accounting and O&M throughout the process of creating a PO, requesting a PR and adding funds to the PO. Sometimes receive messages from the vendor.



CAP establishes contracts with pricing, terms & conditions

(5)



O&M prepare the PR and determine the amount with the requested PR amount.



CAP prepare the PO with the amount requested by O&M. The PO is used to receive goods against the established amount.



Every FY, for each vendor, CAP must establish a new PO in SAP.

(6)



If there is a pricing change throughout the FY, CAP closes the old PO and creates a new PO but only with a new PR prepared by O&M.

(7)



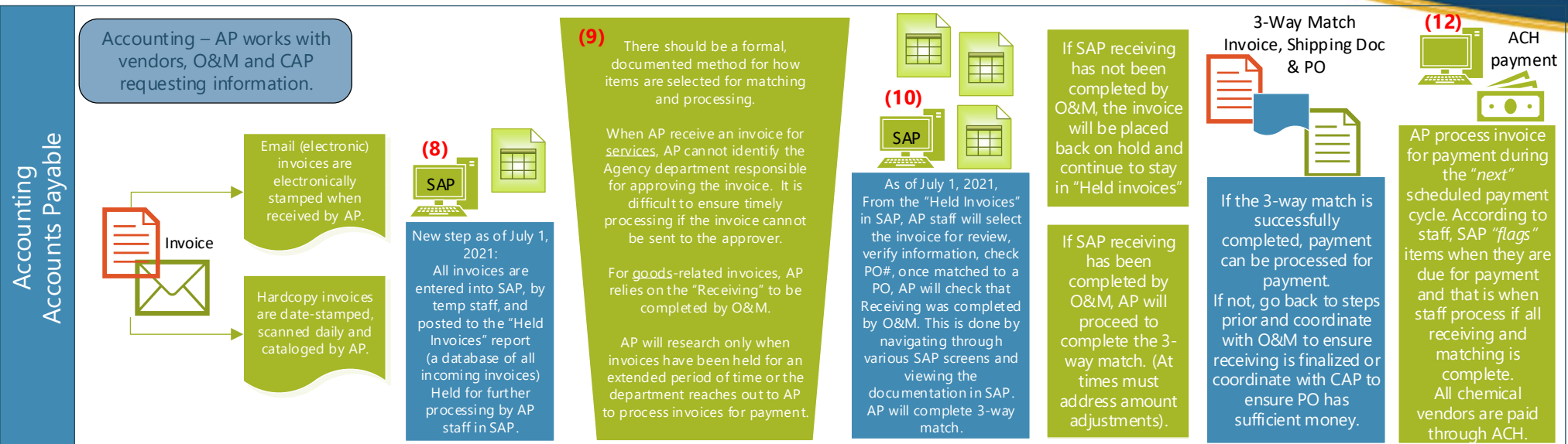
If money runs out in the established PO, O&M staff must create a new PR with additional funding, then CAP will add the new funded PR to the existing PO so that receiving can be completed

Audit Findings & Recommendations

Processes People

- Each FY new POs must be created
- When contract terms change new POs must be created
- Various POs, by location and by vendor
- Sometimes receiving is done against the incorrect POs and requires reversing entries and reentering receiving
- Sometimes there is not sufficient funds available and requires a new Purchase Request to increase funding in the PO
- Need monitoring reports
- Training, SOPs and awareness

Invoice Payment Process



935 Invoices processed for payment - In FY21 it took an average of 22 days from the date the invoice was received to the date the invoice was paid

Audit Findings

Processes People Technology

- 43% paid late
- Streamline the process for uploading, matching and processing invoices
- Visibility of transactions with monitoring reports
- Training
- No SOPs
- Communications and collaboration
- Proactive approach with the goal to pay by the invoice due date

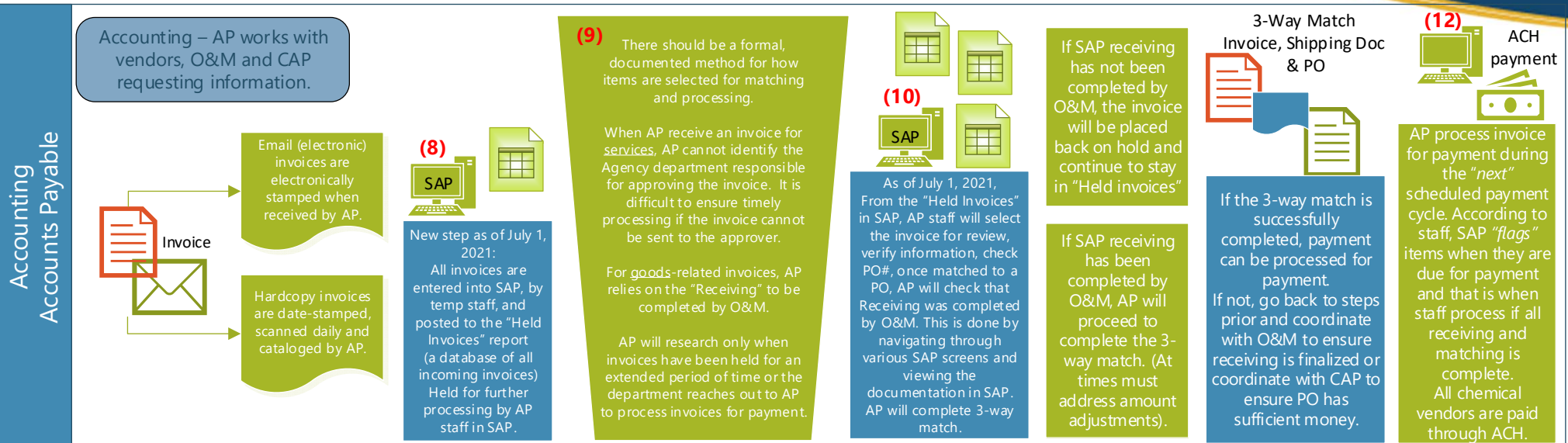
Chemical Invoice Payments

Chemicals Invoices Only Late Payment Analysis								
Payment Status ⁽¹⁾ :	FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21	
	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	367	40%	433	49%	435	46%	534	57%
Late	541	60%	458	51%	507	54%	401	43%
Totals	908	100%	891	100%	942	100%	935	100%

Chemical Invoices Paid Late

Chemical Invoices Only Number of Invoices Paid Late by Days Late, After the Due Date					
Number of Invoices paid After the Invoice Due Date	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21 ⁽²⁾	FY20/21 % Of the invoices paid late (401)
Invoices paid on time	366	432	432	534	57% of all
1-30 days late	491	423	396	296	31% of all and 75% of late payments
31-60 days late	39	29	65	84	9% of all
61-90 days late	10	6	29	12	
91 days or more	1	0	16	9	
Total Late	541	458	507	401	
Total Invoices	907	890	938	935	
Average Number of days paid late	15 days	12 days	22 days	22 days	
Least number of days - paid late	1	1	1	1	
Highest number of days - paid late	1106	71	167	179	

Recommendations for Invoice Matching and Processing

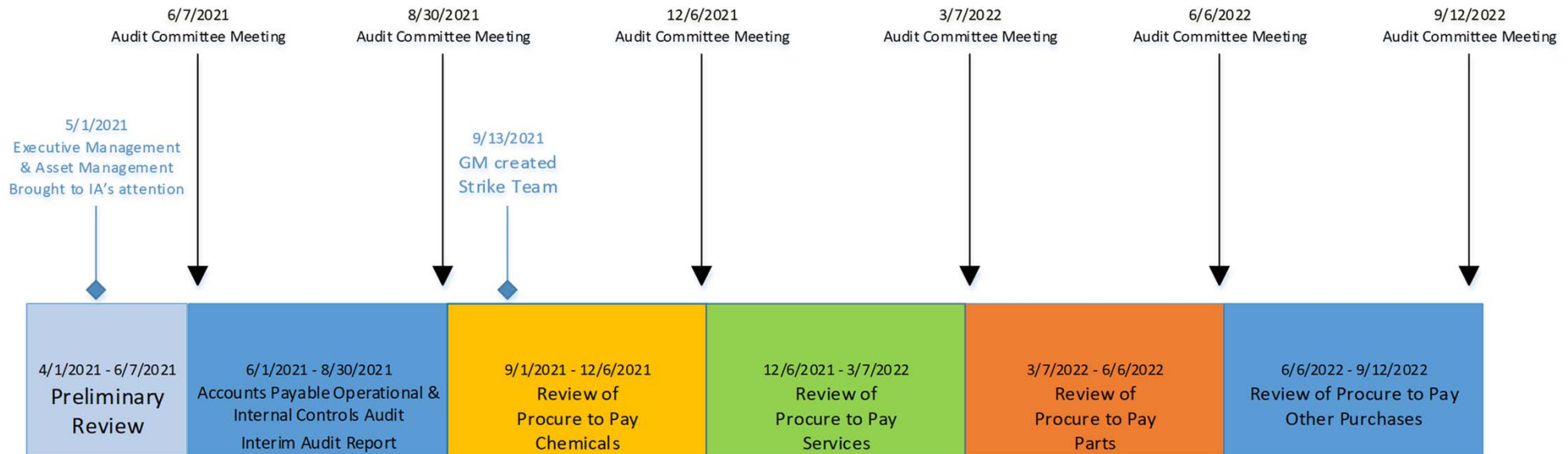


Audit Recommendations

Processes People Technology

- Streamline the process for uploading, matching and processing invoices
- Visibility of transactions with monitoring reports
- New processes and training
- Improved communications
- Proactive approach with the goal to pay by the invoice due date

Internal Audit Timeline to Evaluate Accounts Payable Operations





The Accounts Payable Operational and Internal Control – Review of Procure to Pay Processes for Chemicals 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.

INFORMATION
ITEM
2B

Date: December 8, 2021

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

12/06/21

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for December 8, 2021

Executive Summary:

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

During this quarter, along with additional routine audit projects and administrative tasks, Internal Audit (IA) staff completed an extensive audit of the procure to pay processes for the Agency's chemicals. This was a follow up to the comprehensive Accounts Payable Operational and Internal Control Audit presented on August 30th, 2021 and in response to concerns related to the late payments of invoices. IA completed an audit report with various observations and recommendations for consideration. IA also completed the annual Quality Control Review of the Annual Comprehensive Financial Report. Additionally, IA provided a Brown Bag Presentation to Agency employees about the role of Internal Audit. Finally, IA completed candidate evaluations and interviews for the Senior Auditor position. The attached Quarterly Status Report provides details of the various audit projects.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

Prior Board Action:

On June 16, 2021 the Board of Directors approved the Fiscal Year 2021/22 Annual Audit Plan in which IAs projects are listed.

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

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Internal Audit Department Status Report for December 8, 2021

Internal Audit Department

Quarterly Status Report for December 2021

Projects Completed This Period

Project: **Accounts Payable Operational and Internal Control Audit:
Procure to Pay Processes for Agency Chemicals**

Scope:

The objective of the audit was to evaluate the procure to pay processes for Agency chemicals, including ordering, receiving and payments; to identify problems, bottlenecks and inefficiencies in the various steps to process chemical vendor invoices timely.

Status: **COMPLETE**

In the **Accounts Payable Operational and Internal Control Interim Audit Report**, dated August 20, 2021, IA selected and completed an extensive evaluation of the Procure-to-Pay processes for Agency Chemicals because of the critical nature of these goods needed to carry out the essential services of the Agency.

During the August Audit Committee Meeting, in response to the Audit Committee's concerns and as a commitment to address the various issues with late payments, IEUA's General Manager created the Agency's Strike Team to make immediate changes to improve payment processing. The Strike Team meets almost weekly to discuss IAs audit progress and audit findings and recommendations and proposed improvements are discussed. The Strike team is composed of members from Internal Audit, Asset Management, Engineering, Finance and Accounting, Contracts and Procurement and Business Information Services.

The Strike Team agreed on the existing problem and is the basis for the scope of this audit: ***Agency invoices are not being paid by the invoice due date and/or within the payment terms.*** IA suggest the Strike Team take the lead to address IAs audit observations and recommendations noted in this audit report.

The audit report is presented under a separate cover, contains a spreadsheet listing over 30 audit recommendations, several flowcharts and pictures of the process for P2P for Chemicals. IA notes that efficiencies can be improved in the entire process from the receiving functions in the Agency's financial systems to the processing functions. The findings and recommendation all relate to general themes including:

- Processes and procedures require changes to make them more efficient
- Visibility of transactions through monitoring reports
- Purchase Order (PO) & Purchase Requisition (PR) requirements and funding needs
- Training & Standard Operating Procedures (SOPs)
- Communication, cross-communication & customer service approach
- Efficient processes to ensure receiving is completed timely
- Proactive approach and procedures to ensuring timely payment

The next area to be evaluated will be the P2P process for parts and other goods/services.

Project: **Quality Control Review of the FY 2020/21 Annual Comprehensive Financial Report (ACFR)**

Scope:

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

Status: **COMPLETE**

IA's review includes the following procedures:

- Verified that the FY 2021 amounts and totals on the financial statements were transferred accurately from the FY 2021 Trial Balance.

Internal Audit Department Quarterly Status Report for December 2021

- Verified that the FY 2020 amounts/totals for all financial statements were transferred accurately from the FY 2020 published ACFR to the FY 2021 ACFR.
- Recalculated the FY 2021 totals on all financial statements for mathematical accuracy.
- Checked titles and years to ensure updates were made for the years they correspond to.
- Reviewed narratives for completeness, spelling and grammatical accuracy.
- Reviewed all sections of the ACFR to ensure consistency and a professional presentation.

IA is in the process of finalizing their comments and recommendations for the Finance and Accounting department. The compilation of the ACFR is an Agency-wide team effort. IA will provide a report to the Finance and Accounting's management upon completion of its review.

Project: "The Role of IEUA's Internal Audit Department"
Presentation for Human Resources Monthly Brown Bag Series

Scope:

The Agency's Human Resources Department (HR) facilitates monthly Brown Bag workshops where different Agency departments present on various Agency functions and programs. Presentations are conducted virtually via Microsoft Teams and all Agency employees are invited. Internal Audit presented on the Role of Internal Audit on October 21, 2021.

Status: COMPLETE

IA (currently, only a department of 2) provided a virtual presentation to all Agency employees about the Role of the Internal Audit Department. This was noted in the Agency's "Employee Weekly Update":

On October 21, the Brown Bag Session was presented by the Internal Audit Team. The team provided us an overview of their role and functions along with the importance and benefit of having an Internal Audit team. In addition, the Audit Team discussed the process of an Operational Audit, outlining the 7 questions the team attempts to answer during an operational audit. The team also detailed the different steps involved and what to expect during an audit. Lastly, the team shared information and statistics on occupational fraud and tips on how to prevent fraud from happening. Approximately 84 Agency employees participated in this Brown Bag.

IA is thankful to the General Manager, Deputy General Manager and the Agency's Audit Committee Advisor, for providing short video clips demonstrating their support for the role of Internal Audit. These were incorporated into our presentation to demonstrate that IA is part of the whole IEUA team and ready to assist with every way we can. IA also appreciates staff's help in preparing for the presentation. The presentation was well received by staff and many positive comments have been given to IA staff.

Projects in Progress

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

Internal Audit Department Quarterly Status Report for December 2021

external forms and documents that require electronic signatures and evaluated the types of electronic signatures that may be practical and necessary. IA has discussed the preliminary results of the evaluation and recommendations with BIS management and the Executive Management team for their consideration. Additional evaluation of these processes will be completed once remote work status transitions to the original on-site work status. A final report or results will be documented at that time.

Project: **Asset Management Defect Elimination Committee & Safety Committee**

Scope:

IA participates in meetings related to the Agency's Asset Management program and the Safety programs to gain an understanding of the Agency's priorities and understand Agency risks, represent the department and be a resource to provide feedback and recommendations.

Status: **On-going**

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

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

Scope:

The original evaluation reviewed the expenses incurred by the Agency in response to the ongoing global pandemic (COVID-19). Expenses include costs incurred to comply with health guidelines, to prevent the spread of COVID-19, protect Agency personnel and the public, cost related to transitioning employees to work from home and ensuring proper on-site precautions. The objectives of the review were to evaluate if the expenses are in compliance with 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 had incurred approximately \$600,000 in expenses for laptops, computer-related equipment and accessories, personal protective equipment (PPE), disinfection/cleaning services, etc. At the time of the original review, the Grants Department had submitted over \$550,000 in costs for potential reimbursement, while they continue to work with other departments to compile additional costs and continued to research FEMA grants and other funding opportunities.

Grants staff provided an update and stated that FEMA advised the Agency to withdraw the original application and resubmit taking into consideration additional rules for eligible costs. Recently, in September 2021, IEUA Grants staff resubmitted a revised application for \$326,307 where most of the reduction was related to labor and computer equipment. At this time, this application is being reviewed by FEMA before any reimbursements are granted. Grants staff also stated that FEMA guidelines have changed to add additional eligibility time to April 2022 and with this extension, it will allow additional eligible costs to be submitted in the future.

Additionally, staff stated that a new source of funding was identified for \$122,635 incurred for laptops and software purchased by the Agency for remote work, which was deemed ineligible by FEMA. The new source of funding will come from the California Department of Finance.

IA will coordinate with the Grants Department to provide a comprehensive update on all the details and information related to the Agency's COVID-19 expenses and the eligible/reimbursable amounts from the different funding sources. This coordination/report will be scheduled through the Annual Audit Plan in June.

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

Internal Audit Department Quarterly Status Report for December 2021

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.

Report on Open Audit Recommendations as of December 2021

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

Status: On-going

As of December 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.

Internal Audit Department Quarterly Status Report for December 2021

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*	Planned Follow-Up
Accounts Payable Follow-Up (Deferred Recommendations related to Agency Policies)	August 29, 2013	2	FY 2022
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2022
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
Total Outstanding Audit Recommendations		98	

**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

An additional 35 audit recommendations will be added, resulting from the Review of the Procure to Pay Processes for Chemicals. These recommendations will be added to the table above after the audit report is

Management Requests

received and filed by the Board. The report is being submitted under separate cover.

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

Internal Audit Department Quarterly Status Report for December 2021

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.

Special Projects

On-going

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

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

Internal Audit Staffing and Professional Development

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

During this quarter, IA staff attended 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.

The Internal Audit Department is staffed as follows:

- 1 Full-time Manager of Internal Audit
- 1 Full-time Senior Internal Auditor
- 1 Full-time Senior Internal Auditor – evaluation/recommendation pending

Future Audit Committee Meetings

- *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*
- *Monday, December 5, 2022 – Regularly Scheduled Audit Committee Meeting*