



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

**MONDAY, MARCH 7, 2022
9:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
VIEW THE MEETING LIVE ONLINE AT IEUA.ORG
TELEPHONE ACCESS: (415) 856-9169 / Conf Code: 191 714 28#**

PURSUANT TO AB361 AND RESOLUTION NO. 2022-3-1, ADOPTED BY THE IEUA BOARD OF DIRECTORS ON MARCH 2, 2022, 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 the number provided above. Alternatively, public comments may be emailed to the Recording Secretary Laura Mantilla at lmantilla@ieua.org no later than 24 hours prior to the scheduled meeting time. Comments will then be read into the record during the meeting.

CALL TO ORDER

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to email the Recording Secretary no later than 24 hours prior to the scheduled meeting time or address the Board during the public comments section of the meeting. Comments will be limited to three minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

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

1. ACTION ITEM

A. MINUTES

Approve Minutes of the December 6, 2021 Audit Committee meeting.

2. INFORMATION ITEMS

**A. ACCOUNTS PAYABLE OPERATIONAL AND INTERNAL CONTROL
AUDIT REPORT – REVIEW OF PROCURE TO PAY PROCESSES FOR
PROFESSIONAL SERVICES – ENGINEERING & CONSTRUCTION
MANAGEMENT (WRITTEN/POWERPOINT)**

**B. QUARTERLY UPDATE FOR AUDIT RECOMMENDATIONS RELATED
TO THE REVIEW OF PROCURE TO PAY PROCESSES FOR
CHEMICALS (WRITTEN/POWERPOINT)**

**C. INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR
MARCH 2022 (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 Recording Secretary 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
AUDIT COMMITTEE MEETING
INLAND EMPIRE UTILITIES AGENCY*
VIRTUAL/TELECONFERENCE
MONDAY, DECEMBER 6, 2021
9:00 A.M.**

COMMITTEE MEMBERS PRESENT via Video/Teleconference

Steven J. Elie, Chair
Paul Hofer, Director

STAFF PRESENT

Shivaji Deshmukh, General Manager
Christiana Daisy, Deputy General Manager
Laura Mantilla, Executive Assistant
Daniel Solorzano, Network Administrator

STAFF PRESENT via Video/Teleconference

Kathy Besser, Executive Manager of External & Government Affairs/AGM
Javier Chagoyen-Lazaro, Acting Executive Manager of Finance & Administration/AGM
Deborah Berry, Manager of Finance & Accounting
Robert Delgado, Manager of Operations & Maintenance
Denise Garzaro, Board Secretary/Office Manager
Don Hamlett, Acting Deputy Manager of Integrated Systems Services
Jennifer Hy-Luk, Acting Executive Assistant
Jeanina Romero, Executive Assistant
Wilson To, Technology Specialist II
Sapna Nangia, Senior Internal Auditor
Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT via Video/Teleconference

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

Committee Chair Steven J. Elie called the meeting to order at 9:00 a.m. He gave the public the opportunity to comment and provided instructions for unmuting the conference line.

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

1A – 1C. ACTION ITEMS

The Committee:

- ◆ Approved the minutes of the August 30, 2021 Special Audit Committee meeting.
- ◆ Recommended that the 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 various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;
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; and
4. Authorize the General Manager to execute the inter-fund loan;

as an Action Item on the December 8, 2021 Board meeting agenda.

◆ Recommended that the Board

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

as a Consent Calendar item on the December 8, 2021 Board meeting agenda.

2A – 2B. INFORMATION ITEMS

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

- ◆ Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals
- ◆ Internal Audit Department Quarterly Status Report for December 2021

3. AUDIT COMMITTEE ADVISOR COMMENTS

Audit Committee Advisor Travis Hickey recognized the Agency for their hard work on the audit and for receiving the Government Finance Officers Association Award.

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 9:52 a.m.

Respectfully submitted,

Laura Mantilla
Executive Assistant

*A Municipal Water District

APPROVED: MARCH 7, 2022

INFORMATION
ITEM
2A

Date: March 16, 2022

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

03/07/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management

Executive Summary:

Internal Audit (IA) staff completed an evaluation of the procure to pay process for Agency professional/consulting services. The objective of the audit was to evaluate the procure to pay processes including ordering, purchase requisitions, receiving, approval and payments for professional/consulting services, to identify problems, bottlenecks, and constraints in the various steps to process vendor invoices timely.

The Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management noted that for the six professional consultants reviewed, approximately 73% of the time invoices were paid after the invoice due date. The report attached provides a list of twenty-one 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, Purchase Requisition (PR) processing, training, Standard Operating Procedures (SOPs) are needed, improved communication and cross-communication need to be improved, the use of technology and monitoring reports and established key performance indicators and measurements are needed. The report that follows provides details of the observations and recommendations identified.

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.

On December 8, 2021, the Board of Directors reconfirmed the approved Audit Committee and IA Department Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Professional Services– Engineering & Construction Management 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 Control Audit Report – Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management
Attachment 2 - PPT



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DATE: February 24, 2022

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 Professional Services –
Engineering & Construction Management**

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit (IA) Department has performed an audit of the Procure to Pay Processes related to Professional Services administered by the Engineering & Construction Management (E&CM) Department, specifically the Master Contracts or Design Contracts. The audit was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2021/2022 Annual Audit Plan and the IA's Department Charter.

Audit Objectives and Scope:

The objective of the overall Accounts Payable Operational and Internal Control Audit is to evaluate the various payment processes and operations of the Accounts Payable (AP) Group, within the Accounting Unit, to determine whether Agency policies and department-specific standard operating procedures were established and to identify areas for improvement. The scope of the Review of Procure to Pay Processes for Professional Services is to evaluate the payment processes for E&CM professional services.

The specific objectives of the audit include:

- Evaluate the invoice processes, including receiving and payments, related to Professional/Consulting Services procured for E&CM
- Determine compliance with Agency policies and department Standard Operating Procedures
- Evaluate internal controls
- Evaluate the timeliness and efficiency of payments for specified vendors that provide professional/consulting services for E&CM
- Evaluate the use of technology and reporting tools
- Identify operational efficiencies and opportunities for improvement

Water Smart - Thinking in Terms of Tomorrow

Steven J. Elie
President

Michael Camacho
Vice President

Marco Tule
Secretary/Treasurer

Jasmin A. Hall
Director

Paul Hofer
Director

Shivaji Deshmukh
General Manager

IA is performing the Accounts Payable Operational and Internal Control Audit in multiple phases. To-date, IA has issued the following audit reports:

- Interim Audit Report: Accounts Payable Operational and Internal Control Audit (dated August 20, 2021) This comprehensive report evaluated invoice and payment data and metrics, including the total number of invoices paid on time or late and the number of days invoices were paid after the due date, along with other analysis of financial information.
- Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals (dated November 24, 2021) This report evaluated the Procure to Pay Processes for the Agency's chemicals (from ordering to payments). IA identified several observations and provided thirty-five (35) audit recommendations to three (3) Agency Departments: Operations & Maintenance, the Accounting Unit of the Finance Department, and Contracts and Procurement. Quarterly reports will be submitted to the Audit Committee.

IA also plans to evaluate the payment processes related to other department's professional services and parts. An audit report will be finalized after the completion for each area reviewed.

Audit Techniques applied:

Audit techniques applied:

- Interviews of Agency staff
- Review of Agency policies
- Review of Standard Operating Procedures (SOPs)
- Evaluation of internal controls
- Review/understanding of the processes to perform service receiving, matching of procurement, and invoice documents, and processing of payments
- Review and analysis of financial transactions
- Review of supporting documents

Audit Results – Executive Summary

This audit report provides the audit results, observations, and recommendations related to IA's Review of Procure to Pay Processes for Professional Services for the E&CM Department.

The audit results noted that in FYs 2019/2020 and 2020/2021, the Agency paid \$9,274,787 and \$8,069,606, respectively for all Agency related professional/consulting services (see breakdown in the analysis section later in the report).

For this audit, IA's methodology was to select a sample of six (6) professional services contractors administered by E&CM, for analysis. The audit found that the Agency processed \$2,663,980 and \$4,976,920 respectively in FY 2019/2020 and FY 2020/2021 for the six (6) professional services selected for review. IA's analysis found that seventy-three percent (73%) of the invoices were paid late (additional details and analysis attached).

IA is reporting a total 21 audit recommendations resulting from this Review of Procure to Pay Processes for Professional Services for E&CM: seven (7) recommendations to the E&CM Unit, two (2) to the Contracts and Procurement Unit (CAP) and twelve (12) to the Accounting Unit to consider additional controls to make the invoice payment process more efficient and ensure payments are made by the due date. Some of the recommendations have been previously provided through the Review of Procure to Pay Processes for Chemicals.

As reported in the prior audit report, in response to the need to implement efficiencies in the procure to pay processes throughout the Agency, IEUA's General Manager created the Agency's Strike Team to work closely with Agency departments to make immediate changes to improve payment processing. The Strike Team meets frequently to discuss IA's audit recommendations and the department's corrective action plans and improvements.

The report is organized as follows:

- IA's list of observations and recommendations
- Flowcharts, narratives, and details about the Procure to Pay processes
- Background information about E&CM and the contracts selected for review
- Financial data and analysis of transactions selected

Acknowledgements

IA would like to extend our appreciation to the E&CM, CAP, and Information Technology (IT), and the Accounting Units for their cooperation and assistance during the audit. IA looks forward to the continued collaboration and continually working together.

Discussions with Management

IA provided the audit results to E&CM, Accounting and CAP management on Thursday, February 17, 2022 and the results were communicated and discussed in a final meeting on Tuesday February 22, 2022 to obtain their review and comments. Where possible, Department management responses have been incorporated.

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Professional Services for the E&CM Department is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

TV:sn:sr

Observations and Recommendations

Procure to Pay Process for Professional Services

In the prior audit report, Accounts Payable Operational and Internal Control Audit Report, IA reported the existing problem which 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.*** 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:

- *Routing the invoice to the E&CM Department timely for approval and processing*
- *Budget blocks and/or PR/PO issues*
- *The Project Manager (PM) does not agree with the services billed*
- *Administrative items or documentation missing*
- *Random errors identified with the documentation and the invoice*
- *No documented Standard Operating Procedures (SOPs) or formal training*

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

- *The invoice does not always arrive first in Accounting for distribution, or Accounting staff is not able to timely distribute the invoice to the proper personnel*
- *Processes and procedures require changes to make them more efficient*
- *Not leveraging the use of SAP and other automated tools to track, route and monitor the invoices*
- *Visibility of transactions through monitoring reports*
- *PO requirements and funding needs*
- *No documented SOPs or formal training*
- *Communication, cross-communication, and customer service approach*
- *Proactive approach and procedures to ensuring timely payment*

Risks to IEUA due to late payments to vendors

- *Vendors not willing to do business with IEUA in the future*
- *Possible higher prices offered at the time of establishing contracts*
- *Possible late fees*
- *Inaccurate budgeted funds available to spend due to not accounting timely for payments due to vendors whom already performed services for the Agency*
- *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 21 audit observations and related recommendations corresponding to specific points in the flowchart that follows the

recommendations spreadsheet and the overall process. The recommendations spreadsheet also provides information about the impact to the process if the recommendations are 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 professional services. 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. IA will provide quarterly progress reports of the recommendations to the Leadership Team and the Board of Directors.

Internal Audit's list of Observations and Recommendations

	Number from Flow Chart	Dept taking the lead to implementation	Observation	Recommendation	Impact on revised/updated process with recommendation being implemented
1	Overall Process	E&CM	<p>E&CM SOPs are outdated for current E&CM Department operational practices for routing, processing, and monitoring invoices.</p> <p>IA found that the E&CM Department is currently working with a consultant to draft a consolidated department SOP. The E&CM Department communicated that a draft SOP is anticipated by the end of March 2022.</p>	<p>The E&CM Department management: Finalize and update the SOP by documenting, signing, sharing with staff, and providing training.</p> <p>Ensure the SOP documents the process for monitoring invoices, timely receiving performed in SAP, how to identify the professional services invoices, track, and route for approvals, to allow the Accounting Unit sufficient time to process payments.</p>	<p>SOPs should be documented once all recommendations and changes have been implemented.</p> <p>SOPs provide value by documenting consistent procedures for employees to follow and be trained and evaluated on.</p>
2	Overall Process	E&CM	<p>There should be continuous monitoring of contracts, PO terms, pricing, monies remaining, payments issued, and other details of transactions.</p> <p>E&CM should work closely with CAP staff to ensure PRs and POs are set up and monitored properly and continuously.</p> <p>E&CM stated they do not review the Open PO Report but they do review the ME2J to monitor all POs by project. CAP staff recommend E&CM review the Open PO Report and is available to work with E&CM on reviewing.</p> <p>E&CM currently relies on a report they develop in Microsoft Access with information that is manually entered from SAP into MS Access. This report allows them to monitor all spending per contract. EC&M would like additional reporting features and guidance to monitor all Master contracts and corresponding POs and transaction details to facilitate tracking and monitoring contract amounts and spending totals. IA noted there appears to be some duplication of data entered from SAP into the MS Access report.</p>	<p>E&CM take the lead to seek assistance of CAP Department and the Accounting Unit to establish procedures for monitoring POs to minimize any budget blocks or delays in processing invoice for payments.</p> <p>The E&CM Department should document an SOP for reviewing, tracking and monitoring contracts, POs, monies remaining, payments issued, and other details of transactions and provide staff training.</p> <p>E&CM should work with IT, Accounting and CAP to determine, develop and/or enhance (using SAP or other systems) and avoid duplication of work/data entry, a report that is of greater value/use to the E&CM department, other than the Open PO Report and/or the MS Access Report, that will track all contracts, corresponding transactions (POs), spending, remaining contract values, vendor contact information, payments issued, and any additional information that E&CM requires. Or determine if the current report and process is the best method available.</p>	<p>Continuous monitoring of funding available to process payments and minimize any budget blocks or delays in processing invoice payments due to Accounting not being able to complete the three-way match with the Invoice, the PO, and the receiving information.</p> <p>SOPs establish consistency in processes and are a good training tool.</p> <p>Avoid, minimize and eliminate duplication of work and data entry and enhance continuous monitoring and tracking of all construction contracts and projects and all related transactions and remaining funding and prompt action before the contract runs out of monies and will provide the department greater visibility of the entire contract and all corresponding transactions/spending.</p>

3	Overall Process	E&CM	Training should be provided on the new SOPs once the SOPs are formalized.	The E&CM Department management should provide training 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 to ensure the effectiveness and efficiency of the Procure to Pay processes.
4	(3) & (4)	E&CM	IA noted that E&CM Department has an internal report (not from SAP) to assist in tracking and routing invoices for proper signature approval. E&CM completes routing of invoices using DocuSign. Additionally, E&CM Department has a goal of completing the required signature requirements on invoices and completing the receiving function in SAP within fourteen (14) days of the date the invoice arrives in the E&CM Department.	The E&CM Department management E&CM Department should consider formalizing this metric of 14 days and additional performance metrics and key performance indicators (KPI's), goals, objectives, and a method to measure how timely invoices are approved and received. E&CM Department should work with the IT Department to establish any reports that can provide measurements and metrics.	Establishing performance metrics, KPI's, goals, objectives, and a method to measure those. For example, establish a goal to ensure invoices are approved and the receiving is processed in SAP with sufficient time to allow accounting to process by the due date. Consider the check run deadlines. Measurements provide an opportunity for the evaluation of a revised process and evaluate employee performance.
5	(2) & (4)	E&CM	IA noted that E&CM Department has an internal report (not from SAP) to assist in tracking and routing invoices for proper signature approval. Additionally, E&CM Department has a goal of completing the required signature requirements on invoices and completing the receiving function in SAP within fourteen (14) days of the date the invoice arrives in the E&CM Department.	The E&CM Department work closely with Accounting Unit to determine if the fourteen (14) days to turn around the approved invoice and complete the receiving into SAP allows sufficient time for Accounting to complete the 3-way matching and process the payment by the due date. The E&CM Department should evaluate their internal metric of 14 days to determine if this is the most appropriate goal and the most effective/efficient time frame, or if it needs to be reviewed or updated.	Coordination between the E&CM goals to complete the receiving and the time the Accounting Unit requires to process the payment to ensure payments are made by the due date.
6	(2) & (5)	E&CM	The E&CM Department is not utilizing the SAP workflow technology for tracking and routing invoices for signature approvals. E&CM staff manually send email notifications to the AP Unit after the receiving is completed may not be the most efficient/effective way to report that receiving in SAP has been completed. On February 22, 2022, E&CM communicated to IA that staff are no longer sending email notifications to AP.	E&CM Department take the lead to work directly with the Accounting Unit and the IT Department to evaluate SAPs workflow functionality to track and route invoices for approval to make the process more efficient & effective. Additionally, evaluate the most efficient/effective way to communicate that receiving has been performed to eliminate the need for email communications.	Utilizing SAP workflow technology will improve tracking and routing invoices and reduce the impact of the over communication of emails from E&CM to the Accounts Payable Group.

7	(3)	E&CM	<p>IA noted that E&CM have tight internal controls that require multiple reviewers and approvals on invoices to verify and confirm that services have been provided and agree to the scope and terms of the agreements. Some invoices require between two (2) and sometimes up to fourteen (14) reviewers to approve and sign invoices, depending on the type and/or dollar amount of invoices as well as the various projects listed on the invoice. This internal control of multiple signatures, while may be a good and tight internal control, is currently not a requirement by any Agency policy or department SOP.</p> <p>IA noted that E&CM has a timeframe of 14 days to turnaround the approved invoice to Accounting. E&CM should determine if it can be made more efficient by considering the cost/benefit of the multiple signatures and the time it takes to submit the invoice to Accounting for payment.</p> <p>Agency Policy A-50 is currently applied by AP for verifying approval and processing invoices. A-50 requires 1 signature for invoices under \$250,000 and 2 signatures for invoices over \$250,000.</p>	<p>E&CM evaluate the department's internal control requirement for the multiple reviewers and signatures required to verify invoices. Ensure the control is documented on a formal department SOP.</p> <p>Additionally, evaluate the cost/benefit of the control and ensure this control of having 2-14 signatures does not slow down the turnaround time to submit approved invoices to AP for processing timely payments.</p>	<p>Evaluating internal controls to balance the benefit and the potential time it takes to process invoices. See also Recommendation 5 related to discussing the internal metric of 14 days to turn over the approved invoice for AP to process payments.</p>
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	Number from Flow Chart	Dept taking the lead to implementation	Observation, Issue, or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
8	Overall Process	CAP	<p>The E&CM Department stated they do not review the Open PO Report but they do review the ME2J Report from SAP to monitor all POs by project because it provides all expenses and POs by project.</p> <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 expenses they will be placing.</p> <p>As noted in Recommendation #2 above, E&CM rely on other SAP reports and create their own monitoring reports with information from SAP to track and monitor contracts/projects and spending.</p>	<p>The CAP Department should work closely with the E&CM Department to provide training and information on how to best monitor POs, activity and funding to prevent/minimize any budget blocks when processing the invoice for payment.</p> <p>Additionally, CAP should work with E&CM, IT and Accounting to determine, develop and/or enhance (using SAP or other systems) and avoid duplication of work/data entry, a report that is of greater value/use to the E&CM department, other than the Open PO Report and/or the MS Access Report, that will track all contracts, corresponding transactions (POs), spending, remaining contract values, vendor contact information, payments issued, and any additional information that E&CM requires. Or determine if the current report and process is the best method available.</p>	<p>Continuous/proactive monitoring using the Open PO Report or other SAP reports and tools such as the ME2J report 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.</p>
9	Overall Process	CAP	<p>There is a need for training for all departments to ensure the Procure to Pay process runs smooth and minimize/eliminate delays in payment processes. Training should be provided periodically to reinforce Agency policies, documented SOPs, Contract and PO requirements, and to ensure employees are following consistent procedures.</p> <p>The E&CM Department mentioned that a reason for the delays in receiving are sometimes related to PO issues (POs not rolled over or other administrative issues). The department would benefit from continuous training, information, and discussions with CAP about the overall process of creating POs, adding funding, rolling over, and continuous, on-going monitoring.</p>	<p>The CAP Department take the lead to assist with providing periodic training, assistance and coaching to the E&CM Department staff on properly monitoring POs. The training should be done periodically after carefully assessing the needs of the department and should reinforce requirements of the Procurement Ordinance, Agency policies, contract, and PO requirements, and SAP processes.</p> <p>CAP should work with the end users to assess training needs, explain, provide assistance, training, and coaching to ensure POs are established for the budgeted/ planned/ forecasted amount needed for the vendor and discuss how to prevent any budget blocks or delays in processing payments.</p>	<p>Training will ensure that the department has the most updated information and understanding on the Procure to Pay processes, specifically SAP processes and requirements, and assist with preventing/eliminating payment delays.</p> <p>Training, coaching, and assistance will ensure that the department has the most updated information and understanding on how to set up, process, fund, monitor and review POs and assist with preventing/eliminating payment delays related to PO issues</p>

	Number from Flow Chart	Dept taking the lead to implementation	Observation, Issue, or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
10	(1)	Acct	<p>The audit found that E&CM invoices were not always received by the E&CM Department soon after the invoice date or soon after AP receives the invoices. IA noted instances where it took over thirty (30) days for the invoice to be routed to the E&CM Department for approvals, by the Accounts Payable Group of the Accounting Unit.</p> <p>The E&CM staff stated that they provide a list of their professional services/consultants to the Accounting Unit so that AP staff are made aware of the vendor invoices that should be routed to E&CM for approval and receiving.</p> <p>IA noted that SAP workflow tools are not used to track, route, manage and approve invoices that require various levels of review and approval.</p>	<p>The Accounting management evaluate and make necessary updates to its internal processes and procedures to ensure all professional service invoices are received by AP staff and are immediately sent to the corresponding Agency department for approval and receiving.</p> <p>Accounting management continuously work closely with the E&CM Department and other Agency Departments and keep a reference list of the professional/consulting services vendors that each Department is managing, to ensure proper reference and routing of the invoices is done immediately upon receipt. This will require continuous communication with the Departments as well as continuous communication with vendors to specify instructions for submitting invoices.</p> <p>Accounting management track the professional/consulting services invoices in the Invoice Held database or other tracking database to monitor when they are received by the Agency and when they are due for payment.</p>	<p>Having continuous communication with the departments and an updated list of the vendors names/invoices they are anticipating will facilitate proper routing of the invoices immediately upon receipt and minimize delays having them processed for payment.</p> <p>Continuously working with vendors specifying and enforcing that all invoices be routed to the Accounting before they are routed to any other staff in the Agency will ensure Accounting staff tracks and monitors the invoices due.</p> <p>Having a process in place to track the professional/consulting services invoices will assist to monitor, review, prioritize payments by the due date and prompt research and follow up of outstanding items.</p>
11	(7)	Acct	<p>A monitoring control such as a SAP report was not established by the Accounting Unit for the E&CM Department professional invoices, to identify past due invoices, assist with the prioritization of invoices for payment, and expedite the payment of past due invoices.</p> <p>The current process was established on 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. This process posts invoices in a "holding screen" but the information can not</p>	<p>The Accounting management should take the lead to work with the IT Department to develop useful monitoring report from SAP to assist with the review, tracking, and monitoring invoice due dates, open invoices, and prioritizing payments.</p> <p><i>(Note: This similar recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-one (21). As of February 15, 2022, the IT Department has developed a way to export the data into excel to create reports).</i></p> <p><u>New Recommendation:</u> The Accounting management should determine how this new reporting/monitoring tool (information from the Held Invoices)</p>	<p>A monitoring report would be beneficial to the Accounting Unit, because information can be sorted by due date, vendor, etc. and it can used to prioritize payments, and review other information.</p> <p>Monitoring of all invoices that come in through the Accounts Payable Group of the Accounting Unit. Monitoring includes sorting information by due date to prioritize the items that need to be paid timely, sorting information by vendor, department, or other criteria, to process items more efficiently.</p>

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			be downloaded to a monitoring report.	will be used and implement a procedure to assist with tracking, monitoring and prioritizing making timely payments.	
12	(7)	Acct	Currently all invoices are uploaded manually by staff or temporary staff and stored “parked” in the Invoice Held screen in SAP until further processing by AP.	The Accounting management should take the lead to work with the IT Department and determine if an invoice recognition software or other technology tools could assist with the uploading of invoices.	The use of technology tools/solution as invoice recognition software can increase efficiency of the Procure to Pay processes.
13	(10)	Acct	<p>Controls need improvement for the payment of invoices and three-way match processes and open invoices administered by the Accounts Payable Group of the Accounting Unit.</p> <p>The review of the AP Monitoring Report (based on the Vendor PO Invoice document type) disclosed the following:</p> <p>FY 2019/20:</p> <ul style="list-style-type: none"> \$1,150,238 (40%) of \$2,901,258 (the total dollar amount paid for professional services to the 6 vendors that were reviewed in detail), the invoices were paid late, which is 73% of the invoice population (138 of 189), and <p>FY 2020/21:</p> <ul style="list-style-type: none"> \$1,410,419 (28%) of \$4,976,920 (the total dollar amount paid for professional services to the 6 vendors that were reviewed in detail), the invoices were paid late, which is 73% of the invoice population (144 of 196), and No automated process or tools are used to expedite the three-way matching for payment of invoices. <p>The current three-way match process can vary in time to complete from a few minutes to several hours as staff sometimes have to complete research and review of several screens in SAP.</p>	<p>It is recommended that the Accounting management:</p> <ul style="list-style-type: none"> establish a procedure to track all open invoice issues, open invoice issues are reviewed by the Accounts Payable supervisor at the end of each month to ensure open items are cleared, work with the IT Department to determine a more streamlined/efficient process in SAP to verify that receiving was completed and expedite the three-way match, and utilize software tools such as SAP Concurr for invoice process and management. 	<p>The benefit of implementing these recommendations provides management the opportunity to reduce these risks of</p> <ul style="list-style-type: none"> an open, unresolved invoice may not be posted by the closing deadline, and appropriate matching between invoices, receiving documents and purchase orders may not be performed.
14	(1) and (8)	Acct	It was noted that currently, there is no methodology in place and SAP workflow tools are not used to track the approval process of the	The Accounting management work with the IT Department to evaluate the feasibility of implementing a centralized SharePoint portal (like the one developed for E&CM) and	The use of Share Point technology provide the Accounting with the following:

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			<p>professional/consulting services invoices.</p> <p>When the Accounting Unit receives professional services invoices, AP Group staff must research who the Project Manager (PM) or approver is and email the invoice to that employee or a related E&CM administrative staff. This research takes time and can slow down the process to route the invoice for proper approval.</p> <p>The invoice transfer and flow are not tracked/monitored and there is no visibility of where in the approval process the invoice is at.</p>	<p>determine if it would be of value to have for all Professional Services invoices where they can be stored for further processing. In addition, Share Point can assist AP staff in sorting and identifying invoices for their staff and ensure they track the approvals needed.</p> <p>Accounting management should work with IT to determine the feasibility of utilizing SAPs workflow process to route invoices for approval while keeping track of where they are in the approval process and ensuring timely payments.</p> <p>Additionally, establish formal, documented procedures for Accounting and other departments using SharePoint to ensure there is consistency in using SharePoint and timely processing invoices for approval and payment.</p>	<ul style="list-style-type: none"> • greater visibility of all incoming invoices, • reduce email correspondence with the E&CM Department related to invoices, and • generate efficiencies and time savings with researching contact staff for invoices.
15	(12)	Acct	<p>A control was not established in the SAP system for the AP processes of the Invoice for payment during the “next scheduled payment cycle”</p> <p>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 (and considered paid late) (per our review of all payments, see table in this audit report).</p>	<p>The Accounting management should take the lead to work with the Leadership Team to determine the Agency’s policy/business decision of when to pay invoices (prior to due date or after due date).</p> <p>Based on results noted above, if necessary, the Accounting Management should take the lead to work with the IT Department to evaluate the cost/ benefit to establish a procedure and/or reconfigure this built-in SAP “flag/alert” to ensure SAP “flags” items for payment five (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.</p> <p><i>(Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-five (25) currently In Progress).</i></p>	<p>The Accounting Unit will be able to see items that are due within the payment cycle to process for payment by the due date.</p> <p>A systematic method to pay invoices before they are due and reduce the instances of late invoices and improve efficiency for invoice payments.</p>
16	(5) & (9)	Acct	<p>The AP Group receives email notifications from the E&CM Department after the receiving is completed may not be the most efficient/effective way to communicate/report that receiving in SAP has been completed.</p>	<p>The Accounting management take the lead to work directly with E&CM Department to determine the most efficient/effective way to communicate that receiving has been performed. Both Departments noted above should discuss and agree if there a need use email</p>	<p>Establishing an agreed communication process for invoice and payment management will improve efficiency.</p>

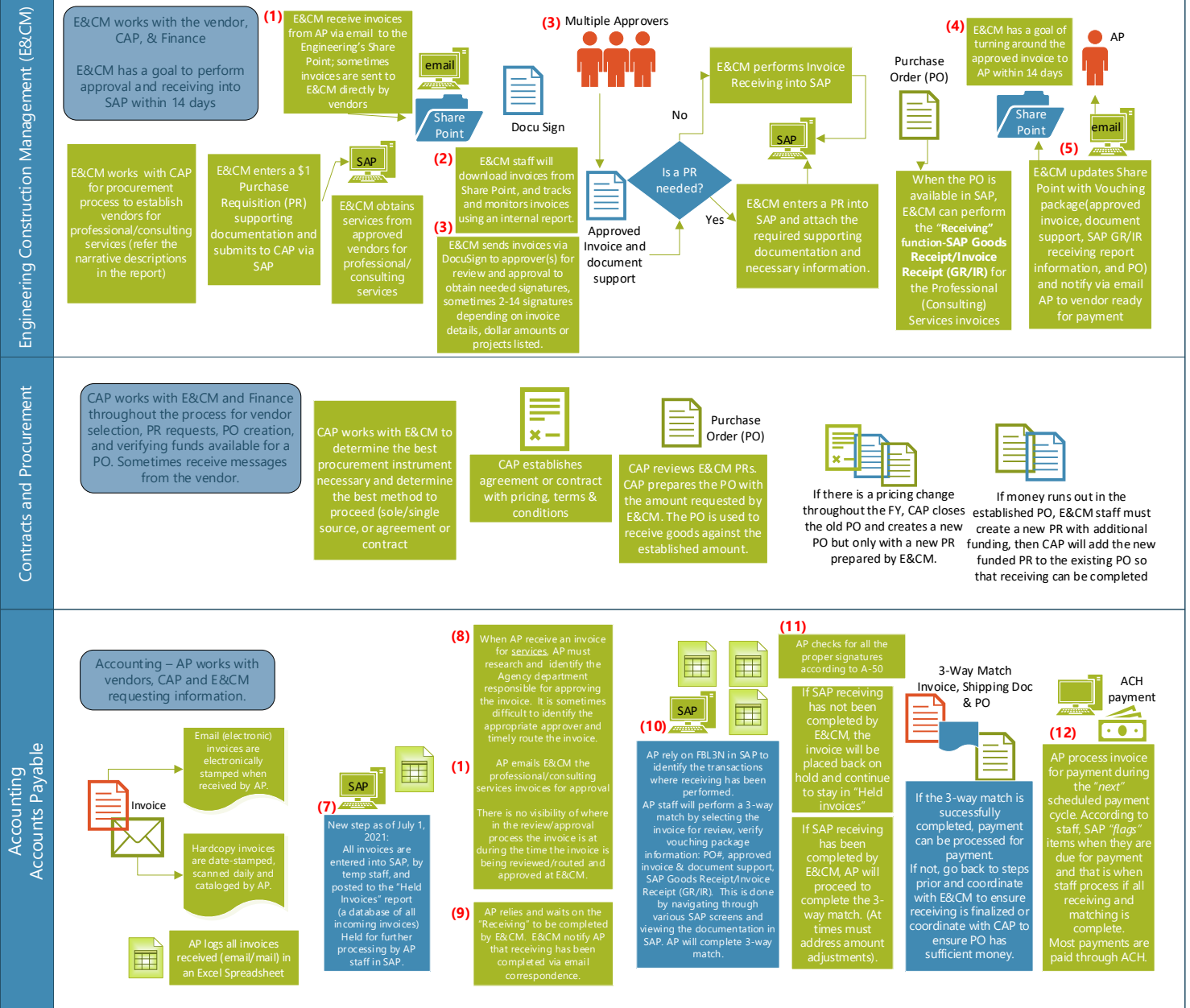
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			There are many transactions when receiving has been performed. In this review, there were 196 and 189 instances of invoices received in SAP. Email communication can be overwhelming as email can be overused and not the most effective way to communicate.	communication for invoice management.	
17	Overall Process	Acct	SOPs were not established for the AP and Procure to Pay processes and supporting procedures for frequency and timely completion of the three-way match for timely payment processing.	Accounting management formalize and document specific procedures to specify how and what items should be selected by AP Group staff to perform the three-way match and processing of payments, also specify the frequency of when this process should be completed. <i>(Note: This is recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-six (26)).</i>	SOPs should be documented once all recommendations and changes have been implemented. SOPs provide value by documenting consistent procedures for employees to follow and be trained and evaluated on.
18	Overall Process	Acct	There is a need for training for AP staff on any new processes established and SOPs for the AP function and Procure to Pay processes on any new processes established.	The Accounting should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures. <i>(Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-seven (27)).</i>	Training should be done periodically after SOPs have been documented and new procedures to ensure the effectiveness and efficiency of AP processing and Procure to Pay processes.
19	Overall Process	Acct	There is no information available of performance metrics and KPI's, goals and objectives and a method to measure those.	The Accounting management establish and document performance metrics, and KPI's, goals, and objectives and a method to measure how timely invoices are paid. In addition, the Accounting management works with the IT Department to establish any reports that can provide measurements and metrics. <i>(Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-nine (29)).</i>	Establishing performance metrics and KPI's, goals, 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. Measurements to evaluate the revised process and evaluate employee performance.

20	Overall Process	Acct	<p>Late invoice payments have been an Agency-wide issue for several years. One of the causes is that the Accounting Unit has had staff shortages for several months due to turnover or retirements. According to Accounting management, they stated it has been difficult for the Accounting to fill their vacancies.</p> <p>IAs Procure to Pay audits have highlighted observations and provided recommendations to improve efficiencies in the processes. Accounting Management has stated that time constraints prevent them from fully addressing and timely implementing audit report recommendations such as developing SOPs, new processes and procedures, and providing training.</p>	<p>The Accounting management should work with the General Manager and the Leadership Team and discuss or consider bringing in professional consultants to assist in catching up with the backlog of overdue payments,</p> <p>and/or</p> <p>using a professional consultant to evaluate the department's needs, key performance indicators (KPIs), processes, procedures, and help implement recommendations to ensure the Accounting Unit can implement audit recommendations, incorporate best practices that ensure payments are made timely, SOPs are documented, and training is provided to staff.</p>	<p>A professional outside consultant with experience in evaluating the Accounting Unit and AP Group operations would provide an opportunity to identify additional ideas and steps for staffing, catching up with back logs, development of best practices, policies, procedures, implement audit recommendations and to support the establishment an efficient Procure to Pay process to ensure timely payments.</p>
21	(11)	Acct	<p>Agency-wide Policy A-50 does not include procedures and internal controls for the payment approvals and threshold dollar amounts for purchase order invoices.</p>	<p>The Accounting management should take the lead and work with the Agency's Leadership Team to update Agency Policy A-50 to include procedures and approvals for purchase order invoices.</p>	<p>Establishing and communicating current policies and procedures reduces the risk of misunderstanding for Departments.</p>

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P2P for Professional Services Engineering
Process for Ordering, Receiving and Payment of Professional/Consulting Services for Engineering & Construction Management



Invoice Payment Process for Professional/Consulting Services

The process to pay an invoice for Professional Services is outlined as follows:

Procure to Pay process for Professional Services administered by E&CM Only:

Engineering – Professional/consulting Services – Receiving Process

- 1) Professional/Consulting Services invoices are forwarded via email from AP to the Engineering SharePoint Portal (eninvoices@sp.ieua.org), for all the invoices that pertain to the E&CM Department only.
- 2) E&CM administrative staff review the invoices located on the SharePoint Portal and download the invoices that pertain to their assigned projects. Engineering Administrative staff update the invoice tracking database.
- 3) E&CM staff routes the electronic invoice and any supporting documentation for approval via DocuSign to the designated approvers. The number of approvals required is based on the payment dollar amount as defined by Agency Policy A-50. For the selected professional services, required 2 to 14 signatures.
- 4) After the approvals have been obtained, the next step is to determine if a PR is needed:
 - Yes: PR is entered by E&CM staff into SAP system and submitted for approvals through the workflow process. Once the PR is approved, the CAP Department will convert the PR to a PO.
 - No: E&CM staff proceeds to the next step (Invoice Receiving).
- 5) When the PO is available in SAP, E&CM administrative staff can perform the Receiving function. As part of the Receiving process, staff need to determine the PO number, line item that receiving can be performed against, and attach the approved invoice and any supporting documentation.
- 6) After the Receiving process has been completed, E&CM administrative staff update the Engineering Invoice database with the date returned to AP. The invoice and any supporting documentation are filed and saved electronically in the corresponding project folder.
- 7) E&CM administrative staff forwards the invoice and any supporting documentation to AP for payment processing. According to E&CM staff, there was a recent procedural change, they no longer notify AP that receiving has been completed via email message.

Contracts & Procurement (CAP)

There are five (5) different paths a procurement request may take initially, depending on the specifics of the services required, risk to the Agency, the longevity and the dollar value of the services, as well as potential applicable policies, laws and regulations. For the purpose of this audit, for the six (6) E&CM contracts reviewed, the process used by the CAP Department to assist E&CM, since all contracts were above \$100K, is as follows:

- 1) Agency departments determine the need for professional services and develop the scope of work.
- 2) Agency department enters one dollar Purchase Requisition (PR) and attaches scope of work and any supporting documentation.
- 3) Agency departments and CAP collaborate to develop the requirements of the solicitation. Agency departments and CAP determine the avenue/method to proceed (i.e., RFI, RFP, Prequalification, etc.).
- 4) Based on the authority provided under the Procurement Ordinance, CAP will post on 3rd party websites to publicly solicit for professional services.
- 5) BID closes and CAP receives the proposals, and evaluation team is established to evaluate proposals and to make a recommendation for award.

- 6) Agency department enters PR fully funding the amount for the contract and attaches all received proposals and indicates Professional Services vendor selected.
- 7) CAP staff reviews PR and performs due diligence and verifies documentation and sets up a new vendor and ensuring they have the current insurance in place to come onto Agency property if required.
- 8) CAP determines the type of contract to be created based on risk, longevity of the contract, and dollar value.
- 9) CAP adopts PR onto an Outline Agreement to generate Contract Number (10-digit number, starting with 46).
- 10) The Contract Release PO (10-Digit number starting with 45) is created to receive and pay invoices and may be referenced in the Contract document.
- 11) CAP creates the Outline Agreement contract to track in SAP and monitor spending for the approved value of the contract (throughout the life of the contract) in SAP.
- 12) CAP will draft the Professional Service contract/agreement and will route to vendor to obtain signatures via DocuSign.
- 13) Vendor's signed draft contract/agreement is included the Board Package for Board approval.
- 14) Once there is a fully executed contract, then it is distributed to all interested parties and uploaded into Laserfiche

After Contract Execution and PO set up:

- 15) For Professional/Consulting Services, the contract dates and dollar amounts are monitored using the Contract Expiration Forecast report, which is distributed monthly to Agency departments. The Contract Expiration Forecast report is a list of all contracts by Project Manager nearing expiration (between 30 to 240 days) and requires review by the CAP Department and the Project Manager to determine if it needs to be amended for time and value or rebid.

Accounting Unit - Accounts Payable

- 1) All invoices received by AP are date-stamped (regardless of goods and/or Professional/Consulting Services):
 - Hardcopy invoices are date-stamped, scanned daily, and cataloged by AP staff.
 - Electronic invoices are electronically stamped when received by AP staff.
- 2) After the mail is opened or downloaded from email, all incoming invoices are logged on spreadsheet and the following information is recorded: date received, email or surface (post) mail, vendor name, invoice number, invoice date, and invoice amount. This step is currently being performed by temporary staff.
- 3) All goods and services invoices are entered into the SAP system and posted to the "Invoice Held Invoices" feature (SAP transaction code: MIR6 or FMFG_HELD, *Invoice Overview: Invoice Documents*). (***New step as of July 2021***)
- 4) Types of information entered: invoice receipt date, invoice date, posting date, (dollar) amount, reference number (invoice number), currency (USD), tax amount (if applicable), text (description), and PO number. Once an invoice is entered into this "Invoice Held Invoices" feature, it is stored as a temporary document in the temporary table until further processing in the SAP system.

For Professional/Consulting Services invoices, AP will perform the following:

- 5) Engineering invoices: forwarded via email to the email address: eninvoices@sp.ieua.org.
- 6) Reoccurring/Prior invoices (previously processed by the AP) – review the vendor and/or payment history in the SAP system to determine the position that approved the invoice. This type of research provides the Agency department, and AP staff will forward the invoice via email for their review and approval.

- 7) New Invoices – AP staff reviews the invoice and performs preliminary research based on the information listed on the invoice in SAP (i.e. project number, WBS element number, etc.). If no identifying information is contained on the invoice and/or the research does not yield any results, then AP staff will circulate the invoice via email to all administrative staff to determine the Agency department.
- 8) Starting point for processing Professional (Consulting) Services payments is the Goods Receipt/Invoice Receipt (GR/IR) report in SAP (transaction code: FBL3N, specified layout). The purpose for using this report is it identifies all the transactions where the “Receiving” process has been performed, and these transactions are waiting for the three-way match to be performed and process for payment.
- 9) After the GR/IR report has been generated, the data/information is sorted to ensure the oldest information appears first and identify the oldest goods receiving that has been performed.
- 10) Using the data/information from the GR/IR report, AP staff filter out and process invoices based on alphabet and/or vendor assignment. Once AP staff have their assigned group/population of invoices, then AP staff will identify the vendor whose invoices will be processed. Invoice selection is based on the following:
 - Oldest date, Highest Dollar amount, and the vendor/invoice that requires the immediate attention.
- 11) Once a transaction (line item) is selected for processing, AP staff will perform the three-way match for the Professional/Consulting Services invoice, which entails reviewing:
 - the PO information and determining the line item where Receiving was performed,
 - the invoices parked in the Invoice Held Feature, which includes the original invoices submitted by the vendors,
 - the approved invoices and any supporting documentation attached during the Receiving process. At this time, AP staff verifies the appropriate approvals have been obtained based on the invoice’s dollar amount.

Note: For Professional (Consulting) Services, E&CM includes a cover page/template as part of the supporting documentation that has all the approvals within one location in the document.
- 12) After the three-way match has been performed, AP staff proceeds to finish processing the transaction and posts the invoice. Once an invoice has been posted, it is removed from the queue (upon refresh) in the Invoice Held Feature screen.
- 13) Then, AP staff will attach the approved invoice and supporting documentation in SAP.

Note: For Professional (Consulting) services, two (2) invoices are attached to the transaction: one is the original vendor’s invoice, and the other invoice shows the approvals.
- 14) Once an invoice has been set up, entered, and posted into the financial module (SAP), then the financial system establishes the transaction as a “Payable” in the future.

Note: A “Payable item” does not mean payment has been made. It means that a payment will be scheduled some time in the future (the liability is recognized in SAP when the 3-way match occurs).
- 15) After all the invoice processing has been completed, AP determines what items will be paid in the SAP system.
- 16) Accounting Management will run a “Prelist” on all the items that will be processed.

Note: The “Pre-list” is reviewed by Agency Management, and items that are not included will be researched and reviewed to determine if should not be included in the current payment cycle.
- 17) Once the “Pre-list” has been reviewed by Agency Management, Accounting Unit, then a final list is generated.
- 18) Final list is submitted for processing in the SAP system. An ACH file is sent to the bank for processing and payment, while physical checks are printed and mailed to the vendors.

Background Information

According to the Agency's Board-approved Procurement Ordinance No. 108 (*Establishing and Setting forth the policies governing Agency authority and dollar limits for best value procurements and procurement-related activities, Section 1, Letter Z*), adopted on October 16, 2019:

"Professional Services shall mean any specially-trained and experienced individual, firm or corporation, providing services and advice in financial, economic, accounting, engineering, information services, technical, architectural or other administrative/professional matters."

The Agency contracts for many different types of Professional/Consulting Services including investment advisors, financial assets/portfolio management, training, laboratory, legal counsel, and other legal services, legislative, software (i.e., SAP, Laserfiche, Adobe), engineering, construction, environmental, cleaning/janitorial, car washing, landscape maintenance, pest control, security/alarm, and so on.

E&CM Department

As stated in the FY 2021/2022 and FY 2022/2023 Operating and Capital Program Budget (Budget document), the E&CM Department provides design, administration, and construction management for water, wastewater, and energy projects that implement the Agency's Capital Improvement Program. Staffing for the E&CM is at twenty-eight (28) personnel (twenty-six (26) full-time equivalents and two (2) limited-term positions).

The E&CM Department's core focus is the administration of the Agency's capital construction projects, while the payments for those capital projects and any Professional/consulting services are handled through the AP) Group within the Accounting Unit.

E&CM Payment Types

AP processes two (2) types of payments related to construction type of projects for the E&CM Department, they are for Professional/Consulting Services and Pay Estimates. A description of each follows:

- Professional/Consulting Services – these payments are for Professional Services not specifically related to a capital construction project.
- Pay Estimates – these are "*monthly estimated progress payments*" for construction work that has been completed on capital construction projects, subject to the Public Contract Code (PCC). Examples include, among others:
 - Regional Plant (RP) No. 5 Expansion project
 - RP-1 Aeration Membrane Replacement Project
 - RP-1 Dewatering Centrate and Drainage Value Improvements
 - RP-1 Mechanical Restoration and Upgrades
 - RP-4 Process Improvement and Primary Clarifier Rehab

According to the AP Group of the Accounting Unit, the amount of time required to process, post, pay, and reconcile payments for Pay Estimates is much longer than any other types of payments. Per discussion with the Accounting Unit staff, Pay Estimates are time-sensitive and required to be paid within thirty (30) days after an invoice has been received (per PPC § 20104.50). To ensure these invoices are paid timely, every month, the Accounting Unit management dedicates all AP Group staff time for an entire week (approximately the 3rd week of the month) to process Pay Estimates. Payments for other types of goods and services are put on hold and postponed until all Pay Estimates have been processed.

Analysis of Financial Transactions

Agency Professional/Consulting Services Expenses

The table below summarizes the Agency's total Professional/Consulting Services expenses for the corresponding fiscal years:

IEUA's (Only) Professional Fees and Services Related to Operations & Maintenance, Does NOT include Capital Construction Projects Actual Expenses		
General Ledger Account Name	FY 2020	FY 2021
External Audit Services	\$ 39,890	\$ 34,795
Legal fees – General, Labor Relations, Litigation	1,308,560	807,785
Legal Settlements	500,000	112,000
Professional Services–Engineering, Public Information, and Training Consultant	355,530	339,972
Software Support	94,951	81,731
Professional Services – Other	496,842	777,191
Contract Labor	1,060,388	1,322,905
Contract Materials	542,760	408,566
Other Contractual Services	2,361,840	1,688,714
Outside Services-Landscaping/Weed/Pest Control, HVAC, Security, and Janitorial	1,218,921	1,264,768
Laboratory Services – Outside	260,636	54,129
Graphic Services	3,950	-
Computer Systems Maintenance	944,631	1,036,454
Maintenance – Fleet	85,888	140,596
Total Professional Fees & Services	\$ 9,274,787	\$ 8,069,606

Source: Agency's Financial System ran on February 14, 2022.

Receiving Process for E&CM Professional/Consulting Services

For this review of Procure to Pay Processes for Professional Services, IA analyzed the timeliness of the payments for the following six (6) vendors, which are the Master Contract (i.e. On Call Design Contracts). Master Contracts are a group of contracts that have been

secured to provide professional/consulting services for general engineering design as requested and required by the Agency. The Master Contracts are made up of a total of 6 vendors, and the services are requested based on task order, and the dollar amount procured from these vendors must not exceeded the individual dollar amount established for that vendor and the overall total dollar amount of all the contractors.

The professional/consulting services are established to provide engineering services on an as needed basis for work that consists of general engineering design including design, plans, specifications, cost estimates, and contract documents for capital projects including electrical/instrumentation, process controls, structural design, sewer improvements, water and recycled water improvements and wastewater improvements, as well as constructability reviews. The total invoices processed, and corresponding amounts paid to each of the 6 vendors for the last two fiscal years are as follows:

Vendor Name	Total Number of Invoices FY 2020/21	FY 2020/21	Total Number of Invoices FY 2019/20	FY 2019/20
Arcadis U.S. Inc	14	\$ 2,914,236	25	\$1,622,984
GHD Inc	108	1,248,317	93	745,212
Kennedy/Jenks Consultants Inc	23	205,841	5	43,174
Michael Baker International Inc	10	314,535	1	846
Stantec Consulting Inc	27	219,391	44	303,898
Water Systems Consulting Inc (WSC)	14	74,600	21	185,144
Totals	196	\$4,976,920	189	\$2,901,258

Source: Accounts Payable Monitoring Report ran on January 31, 2022.

Receiving Process for Agency Professional/Consulting Services


For all professional/consulting services, the “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 requests the services, verifies, and confirms that the services were rendered and the billing information on the invoice match what was agreed to per the contract terms (billing rate, hours provided or services completed, etc.). The table below provides the quantity of the receiving transactions performed by E&CM staff for FY 2020/2021 for only the six (6) vendors selected:

As described in the flowchart and the step-by-step narrative above, the invoices are forwarded by AP to E&CM via email to a SharePoint portal. E&CM staff begin to route invoices to the appropriate project managers, supervisors, managers for review and approval. Signatures are obtained using DocuSign. Each of the invoices received requires between 2 signatures (minimum) and sometimes up to 14 signatures for approval, before staff can perform the receiving in SAP. The number of signatures is determined by the internal control internally set by E&CM for their department and there is no Agency Policy or department SOP with the required number of signatures.

Agency Policy A-50 determines the number of signatures required in order to properly approve the invoice for payment. A-50 requires only 1 department manager signature on invoices under \$250,000 and two signatures on invoices over \$250,000 (levels of staff/managers are designated on the policy). The E&CM invoices analyzed through this audit ranged between \$267 and \$425,330 (in FY 2020/21), according to A-50, required up to 2 signatures.

The E&CM Department has an internal report to track and measure invoices that require approval signatures and receiving into SAP. Additionally, E&CM Department has a goal of completing the signature requirements on invoices and completing the receiving function in SAP within fourteen (14) days of the date the invoice arrives in the E&CM Department. This is a helpful report to track where in the approval process the invoice is and what invoices are due for payment. E&CM uses this report consistently to measure their metrics and the timeliness of the approval and receiving. The report that is used to measure and track the approval process looks similar to this one:

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 <p>Inland Empire Utilities Agency All Outstanding Invoices - Engineering Division</p>								
Project Manager	Company Name	Project Num	Invoice Date	Rec'd Eng	Days Out	Inv #	Inv Amt	Comment
6								
	MWH	Various	11/22/2021	1/6/2022	27	11-30505777-29	\$30,264.00	
	Wallace	Various	11/21/2021	1/11/2022	22	W8000250	\$12,936.00	
	Michael Baker	Various	12/16/2021	1/11/2022	22	1135220	\$26,552.50	
	CAPO	Various	1/8/2022	1/15/2022	18	5302	\$24,200.00	
	Michael Baker	Various	9/26/2021	1/25/2022	8	1127710	\$29,992.50	
							\$0.00	
					Average # of Days Out		\$123,945.00	
2								
	GHD INC	EN19023	11/8/2021	11/9/2021	85	380-0004372	\$7,723.01	Awaiting payment on 11/22, MIGO 5-189178
	GHD INC	EN19023	12/3/2021	12/6/2021	58	380-0005616	\$984.00	Received in SAP, GR 5-190447, declining invoice 1/4/2021, rev 5-190447, AP notified 1-6-2022
					Average # of Days Out		\$8,707.01	
1								
	MWHC	EN19001 EN19006	11/11/2021			-30505777.1-04	\$21,460.00	
					Average # of Days Out		\$21,460.00	
2								
<small>This report is based on calendar days</small> <small>Page 1</small> <small>Tuesday, February 1, 2022</small>								

The “Days Out” metric indicates the total number of days the invoice has been within the E&CM department being processed for approvals. The E&CM Department should consider and formalize this metric and additional performance metrics, key performance indicators (KPI's), goals objectives, and a method to measure those. Additionally, E&CM should discuss this KPI with Accounting to ensure 14 days is the right time frame to spend on receiving that allows Accounting sufficient time to process payments.

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

- *The invoice doesn't make it to the E&CM Department timely or not placed in SharePoint timely for approval and processing*
- *Budget blocks and/or PO issues (not rolled over, etc.)*
- *The Project Manager (PM) does not agree with the services billed*
- *Administrative items or documentation missing*
- *Random errors identified with the documentation and the invoice*
- *No documented Standard Operating Procedures (SOPs) or formal training*

Purchase Order Invoices Processed for E&CM Professional/Consulting Services

In FY 2019/2020, the Agency processed 189 invoices for the six (6) vendors selected for audit, and in 2020/2021 processed 196 invoices. In both years, 73% of the invoices were paid late (close to 150 invoices each year), as shown in the table below. (Source: Accounts Payable Monitoring Report run on January 31, 2022).

	FY 2019/20		FY 2020/21	
Payment Status:	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices
On Time	51	27%	52	27%
Late	138	73%	144	73%
Totals	189	100%	196	100%

	FY 2019/20		FY 2020/21	
Payment Status:	Dollar Amount of Invoices	Percentage of Dollar Amounts	Dollar Amount of Invoices	Percentage of Dollar Amounts
On Time	\$1,751,021	60%	\$3,566,501	72%
Late	1,150,238	40%	1,410,419	28%
Totals	\$2,901,258	100%	\$4,976,920	100%

The chart below, break down the invoices paid, by the total number of days late.

Timeliness of Payments				
	FY 2019/2020		FY 2020/21	
Number of Invoices paid <i>After</i> the Invoice Due Date	TOTAL	%	TOTAL	%
Invoices Paid on Time	51	27%	52	27%
1-30 days late	75	38%	73	38%
31-60 days late	31	16%	31	16%
61-90 days late	16	12%	25	13%
91 days or more	16	7%	15	8%
Total Late	138	73%	144	73%
Totals Invoices	189		196	100%
Average Number of days paid late	41		44	
Least Number of days – paid late	1		1	
Highest number of days – paid late	207		260	

Source: Accounts Payable Monitoring Report run on January 31, 2022.

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

- *The invoice doesn't always arrive first in Accounting for distribution or Accounting staff is not able to timely distribute the invoice to the proper personnel*
- *Processes and procedures require changes to make them more efficient*
- *Visibility of transactions through monitoring reports*
- *Leveraging technology and workflows to track and monitor invoices*
- *PR requirements and funding needs*
- *No documented SOPs or formal training*
- *Communication, cross-communication, and customer service approach*

Detailed Testing and Analysis

Using the Accounts Payable Monitoring Report, for the six (6) vendors selected for audit period of FY 2020/2021, IA performed a detailed review and examination to determine the amount of time required for each step in the process to pay the vendor's invoice. IA calculated the metrics from the invoice date to the date paid in the Agency's financial system and cross-referenced to E&CM's tracking database. No invoices were selected for Arcadis U.S. Inc because they were all paid on time for FY 20/21; instead, IA selected 2 invoices from GHD Inc since they had the most invoices of all the vendors.

IA randomly selected six (6) transactions to evaluate from the date the invoice was received, and approved to the payment date. ***Attachment 1 of this report summarizes the results of the metrics and analysis.*** IA's review disclosed the following below:

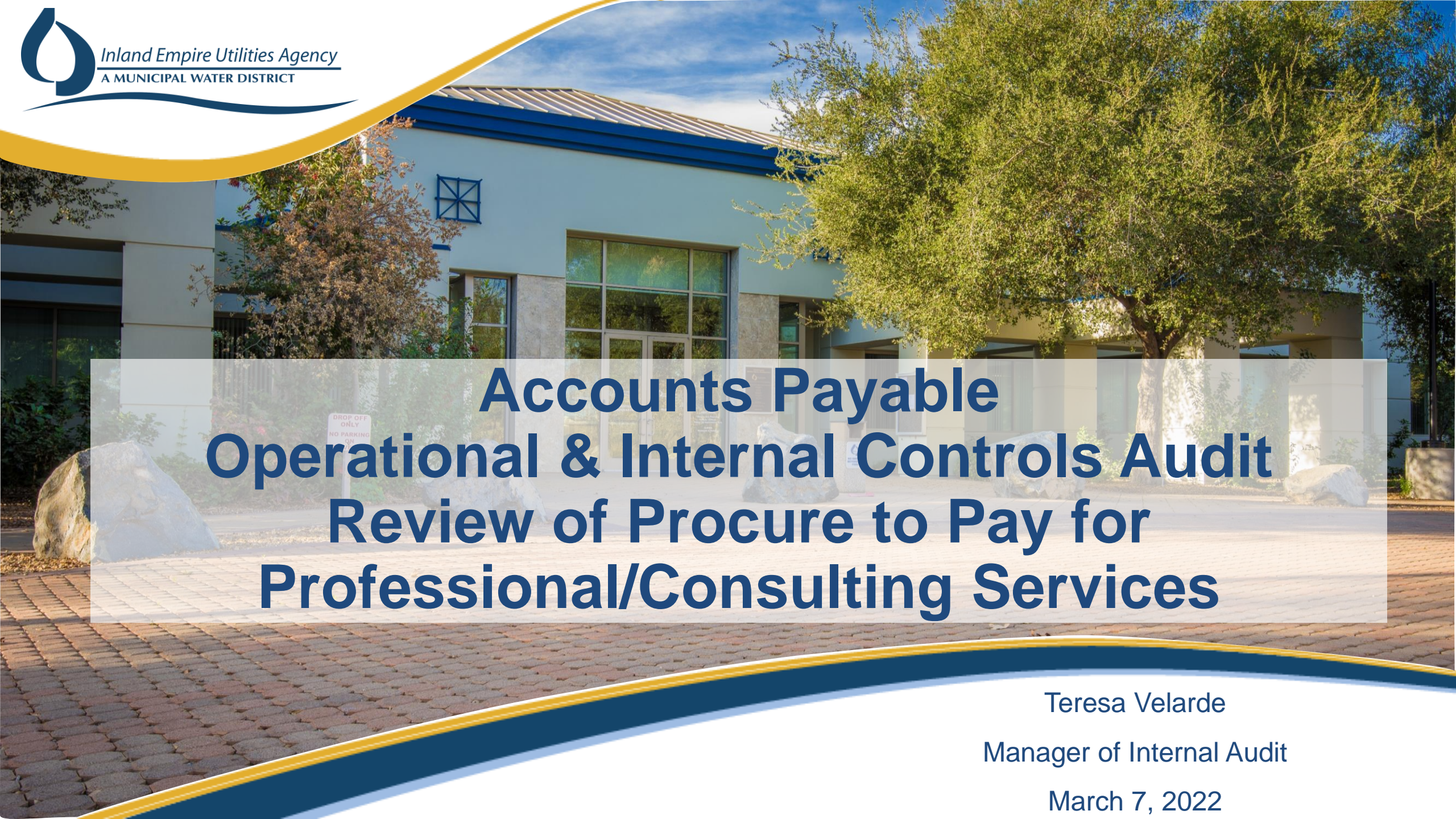
- Two (2) of the six (6) invoices (Stantec and WSC) took longer than two (2) weeks to be received, actual number of days is 116 and 28 respectively, for the AP Group to acknowledge receipt of the invoice from the vendor (according to documented dates on the invoice and the electronic receive date on the invoice and/or the invoice receipt date in SAP).
- Three (3) of the six (6) invoices (GHD, Kennedy Jenks and Michael Baker) took longer than thirty (30) days for the AP Group to send the invoice to the E&CM Department.
- Three (3) of the six (6) invoices (GHD, Michael Baker and WSC) took longer than 2 weeks for Receiving to be performed in SAP by E&CM. According to E&CM Department staff, a KPI has been established internally to return the invoice with the supporting documentation within fourteen (14) days after it has been received from the AP Group. Delays in returning an invoice to the AP Group could be related to further review and verification of the invoice amount and services provided, funding issues, etc.
- One (1) of the six (6) GHD invoices took longer than two (2) weeks to process and post for payment, after the invoice had been returned from the EC&M Department to the AP Group.

Attachment 1
Procure to Pay Process for Professional Services – Engineering & Construction Management
Items Randomly Selected for Detailed Audit Analysis
Fiscal Year 2020/21

Vendor Name / Purchase Order Number	Date Of Invoice (Document Date In SAP)	Date AP Received the Invoice from Vendor (Invoice Receipt Date in SAP)	Date E&CM Received the Invoice from AP (Recd by Eng Dept in E&CM database)	Date Receiving Performed in SAP	Date Invoice was Returned from E&CM to AP (Recd by Eng Dept in E&CM database)	Date Processed by AP in SAP	Date Paid in SAP	Number of Days for AP to receive the Invoice	Number of Days for E&CM to receive the Invoice from AP	Number of Days for Receiving to be performed in SAP after it was received from AP	Number of Days for Invoice to be returned from E&CM to AP	Number of Days for AP to process the Invoice after it was returned by E&CM	Number of days for payment to be processed after it was posted in SAP	Number of days for the Agency to pay the Invoice <i>AFTER the invoice due date</i> (A)+30 days (Payment Terms) = Invoice Due Date – (G)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(A)-(B)	(B)-(C)	(C)-(D)	(D)-(E)	(E)-(F)	(F)-(G)		
GHD Inc (4500034905)	10/24/2020	10/27/2020	12/4/2020	12/14/2020	12/14/2020	1/12/2021	1/14/2021	3	38	10	0	29	2	52
GHD Inc (4500037196)	2/27/2021	3/2/2021	3/2/2021	4/27/2021	4/27/2021	4/28/2021	4/29/2021	3	0	56	0	1	1	31
Kennedy/Jenks Inc (4500037150)	2/10/2021	2/12/2021	3/24/2021	4/9/2021	4/9/2021	4/13/2021	4/15/2021	2	40	16	0	4	2	34
Michael Baker International Inc (4500032984)	2/18/2021	2/18/2021	3/29/2021	5/19/2021	5/29/2021	5/19/2021	5/20/2021	0	39	51	0	0	1	61
Stantec ⁽¹⁾ Consulting Inc (4500029152)	10/9/2020	2/2/2021	Unavailable	2/2/2021	Unavailable	2/3/2021	2/4/2021	116	Unable to measure	Unable to measure	Unable to measure	Unable to measure	1	88
WSC Inc (4500031343)	12/31/2020	1/28/2021	1/28/2021	2/23/2021	2/23/2021	2/24/2021	2/25/2021	28	0	26	0	1	1	26

Sources: SAP (Agency's Financial System), Accounts Payable Monitoring Report run on January 31, 2022, and Engineering & Construction Management Database.

(1) = Invoice was not recorded in Engineering & Construction Management database; therefore, IA could not measure four of the metrics.



Accounts Payable Operational & Internal Controls Audit Review of Procure to Pay for Professional/Consulting Services

Teresa Velarde
Manager of Internal Audit
March 7, 2022

Procure to Pay Processes for Professional/Consulting Services

Audit Objective

To evaluate the procure to pay processes for Agency professional/consulting services administered by Engineering & Construction Management, 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 Results

- Analysis evaluated the timeliness of approximately 200 invoices in one fiscal year
- Noted that 73% of invoices were paid late

Internal Audit Observations & Recommendations

There are delays in performing the receiving function and processing payments by the due date, due to:

- Routing the invoice to E&CM and to the appropriate responsible approver for signature
- Visibility of transactions through monitoring reports
- PO & PR requirements, funding needs and periodic monitoring
- Staff training & Standard Operating Procedures (SOPs)
- Communication, cross-communication & customer service approach
- Establishing procedures to monitor all invoices received, follow up on all outstanding invoices and establish processes to ensure timely payment
- Updated Agency Policies

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
- Possible late fees
- Inaccurate budgeted funds available to spend due to not accounting timely for payments due to vendors whom already performed services for the Agency
- Harmed vendor relationships
- Reputation/image of IEUA may be damaged
- Damaged reputation and image of IEUA
- Staff time and resources wasted researching transactions and responding to vendors asking for overdue payments

Professional/Consulting Services for E&CM Selected for Analysis

Vendor Name	Total Number of Invoices FY 2020/21	FY 2020/21	Total Number of Invoices FY 2019/20	FY 2019/20
Arcadis U.S. Inc	14	\$ 2,914,236	25	\$1,622,984
GHD Inc	108	1,248,317	93	745,212
Kennedy/Jenks Consultants Inc	23	205,841	5	43,174
Michael Baker International Inc	10	314,535	1	846
Stantec Consulting Inc	27	219,391	44	303,898
Water Systems Consulting Inc (WSC)	14	74,600	21	185,144
Totals	196	\$4,976,920	189	\$2,901,258

Results of the Timeliness of Payments for Selected E&CM Professional/Consulting Vendors

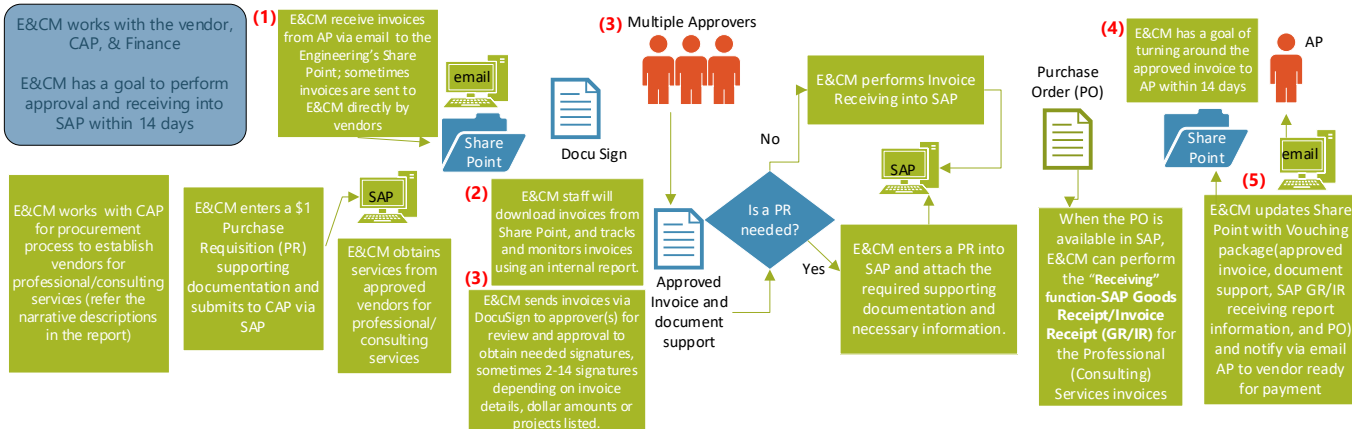
	FY 2019/20		FY 2020/21	
Payment Status:	No. of Invoices processed	Percentage of Invoices	No. of Invoices processed	Percentage of Invoices
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	FY 2019/20		FY 2020/21	
Payment Status:	Dollar Amount of Invoices	Percentage of Dollar Amounts	Dollar Amount of Invoices	Percentage of Dollar Amounts
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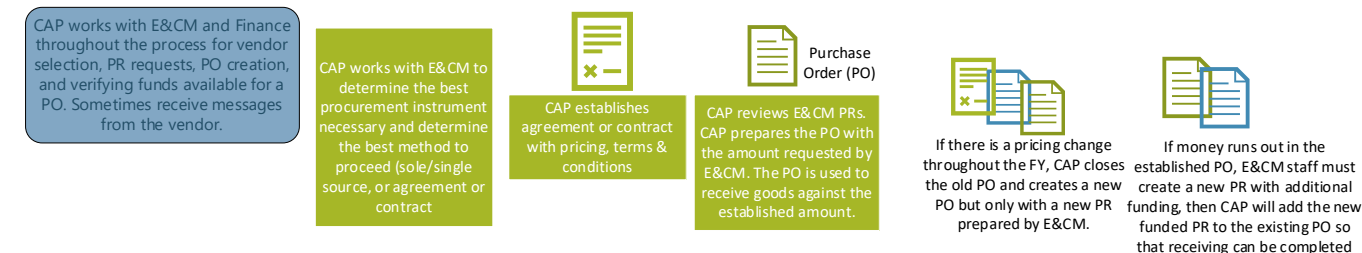
Professional/Consulting Invoices Paid Late

Timeliness of Payments				
	FY 2019/2020		FY 2019/2020	
Number of Invoices paid <i>After</i> the Invoice Due Date	TOTAL	%	TOTAL	%
Invoices Paid on Time	52	27%	51	27%
1-30 days late	74	38%	75	40%
31-60 days late	31	16%	31	16%
61-90 days late	23	12%	16	8%
91 days or more	15	7%	16	8%
Total Late	144	73%	138	73%
Totals Invoices	196		189	
Average Number of days paid late	44		41	
Least Number of days – paid late	1		1	
Highest number of days – paid late	260		207	

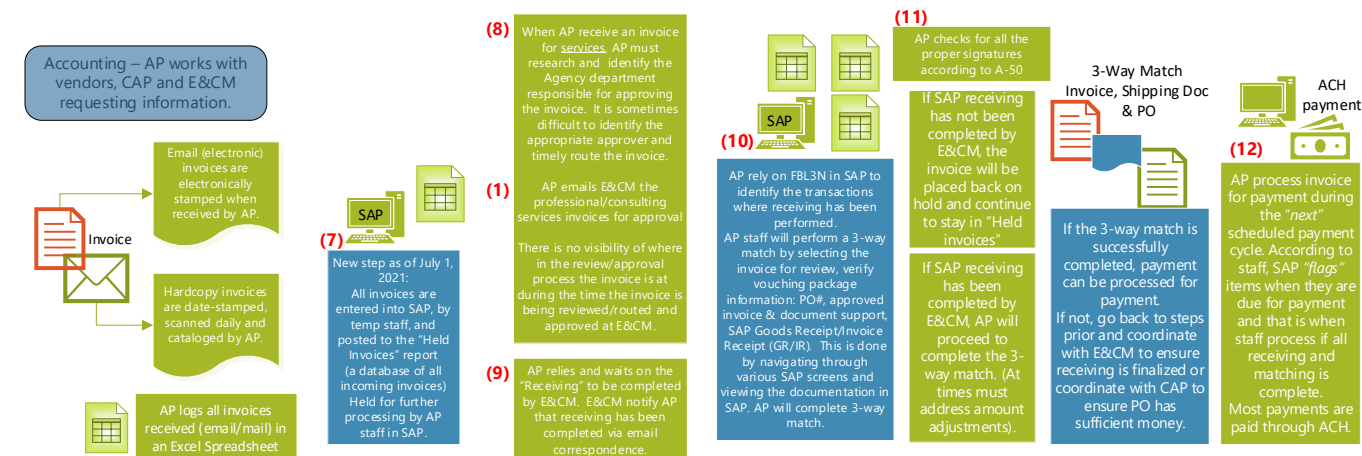
Engineering Construction Management (E&CM)



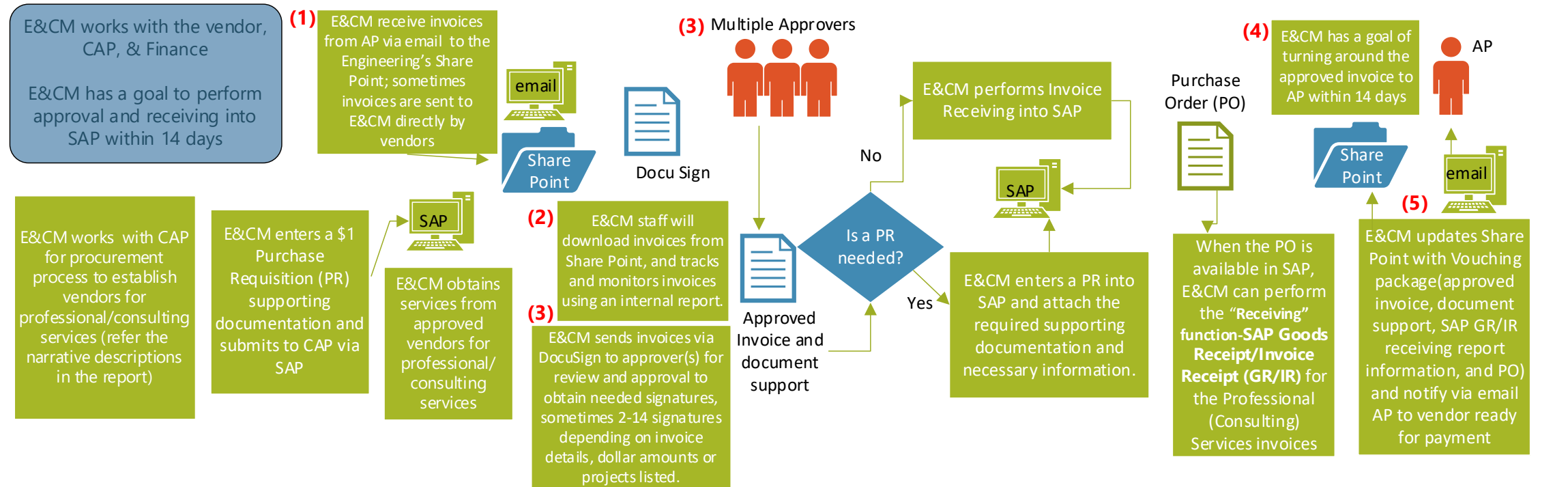
Contracts and Procurement



Accounting
Accounts Payable



Engineering Construction Management (E&CM)



Engineering & CM has a goal to accomplish these steps within 14 days
IAs analysis showed that in the most recent FY tested, the average was 12 days

The challenge is routing the invoice to E&CM for proper approval timely

Professional/Consulting Invoices Selected for Analysis

Vendor Name/ Purchase Order Number	Number of Days for AP to receive the Invoice	Number of Days for E&CM to receive the Invoice from AP	Number of Days for Receiving to be performed in SAP after it was received from AP	Number of Days for Invoice to be returned from E&CM to AP	Number of Days for AP to process the Invoice after it was returned by E&CM	Number of days for payment to be processed after it was posted in SAP	Number of days for the Agency to pay the Invoice AFTER the invoice due date
GHD Inc (4500034905)	3	38	10	0	29	2	52
GHD Inc (4500037196)	3	0	56	0	1	1	31
Kennedy/ Jenks Inc (4500037150)	2	40	16	0	4	2	34
Michael Baker International Inc (4500032984)	0	39	51	0	0	1	61
Stantec Consulting Inc (4500029152)	116	Unable to measure	Unable to measure	Unable to measure	Unable to measure	1	88
Water Systems Consulting Inc (4500031343)	28	0	26	0	1	1	26

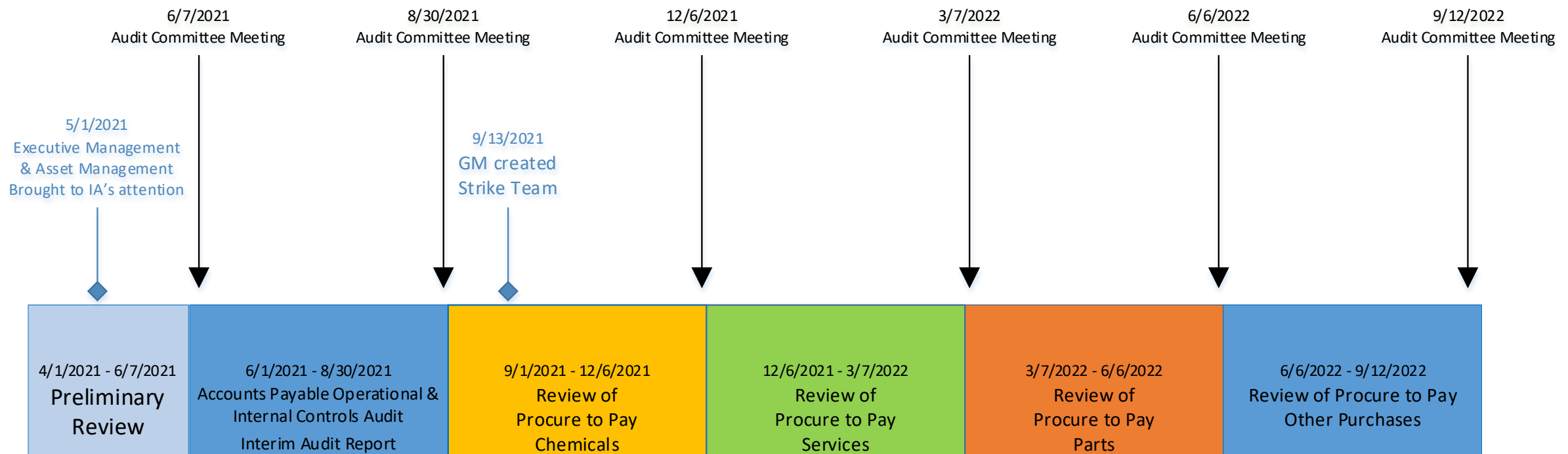
IA Recommendations for P2P Professional Services

Total of 21 Audit Recommendations

- 7 for E&CM
- 2 for CAP
- 12 for Accounting (4 restated)
 - SOPs and training
 - Continuous monitoring of POs and working closely with CAP
 - Leveraging technology for improved monitoring and communication
 - Timely routing of invoices for approval
 - Leveraging SAP workflow tools for tracking and routing
 - KPIs, goals and objectives
 - Assistance from outside professional consultants to assist and evaluate processes

Details of audit observations and recommendations are listed on the spreadsheet on pages 7-14 of Audit Report

Internal Audit Timeline to Evaluate Accounts Payable Operations





The Accounts Payable Operational and Internal Control – Review of Procure to Pay Processes for E&CM Professional/Consulting Services 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: March 16, 2022

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

03/07/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Quarterly Update for Audit Recommendations Related to the Review of Procure to Pay Processes for Chemicals

Executive Summary:

On November 24, 2021, Internal Audit (IA) completed a comprehensive review of the Procure to Pay Processes of Agency Chemicals and provided 35 audit recommendations to improve efficiencies in the process and timeliness of vendor payments. The audit recommendations were provided to three primary departments who have taken the lead to implement each recommendation: Accounting is taking the lead on 14, Contracts and Procurement is taking the lead on 5, and Operations & Maintenance is taking the lead on 16 audit recommendations.

As of February 21, 2021, of the 35 audit recommendations:

- One is considered Implemented and no further work is proposed.
- Twenty-eight are considered In Progress because the lead department has begun to address the issues and has a plan of corrective action with detailed milestone dates for full implementation.
- Two are considered Not Implemented because the lead department requires additional time to evaluate, consider a corrective action plan and milestone dates for implementation.
- Four are No Longer Applicable because alternate controls have been implemented to address the audit observation identified.

The attached report provides details of the audit recommendations and corrective action plans. IA will provide quarterly progress updates until all recommendations have been addressed.

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.

On December 8, 2021, 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:

This quarterly update 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 - Quarterly Update for the Recommendations provided under the Review of Procure to Pay Processes for Chemicals.

Attachment 2 - PPT



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DATE: February 24, 2022

TO: Shivaji Deshmukh
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Quarterly Update for Audit Recommendations Related to the Review of Procure to Pay for Chemicals

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) is providing a quarterly update of the thirty-five (35) audit recommendations provided in the Review of Procure to Pay Processes for Chemicals, dated November 24, 2021. The quarterly update is provided under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2021/2022 Annual Audit Plan and the IAD's Charter.

Audit Objective

The purpose of the update is to provide a quarterly progress report of the original thirty-five (35) audit recommendations with a status of each, including the corrective action plans and planned dates for implementation for each recommendation.

Background

As detailed in the original audit report, chemicals purchased by the Agency are considered critical to the wastewater treatment process because of public health regulatory requirements. The original audit evaluated the controls and processes in place to ensure chemicals are ordered, delivered, received, and paid for, in a timely manner. Good internal controls and sound processes ensure the Agency can operate according to regulatory requirements and maintain healthy business relationships and a good business image with its vendors.

At the December 2021 Audit Committee Meeting, Internal Audit (IA) presented the results of the *Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals* audit. The purpose of the original audit was to:

- Evaluate the funding, ordering, receiving, and payment processes for the Agency's chemicals from procurement to payment.

Water Smart - Thinking in Terms of Tomorrow

Steven J. Elie
President

Michael Camacho
Vice President

Marco Tule
Secretary/Treasurer

Jasmin A. Hall
Director

Paul Hofer
Director

Shivaji Deshmukh
General Manager

- Identify any findings, bottlenecks, and constraints in the various steps to process chemical vendor invoices timely.
- Identify opportunities for improvement and provide recommendations to enhance processes.

As a result of the review, IA provided thirty-five (35) audit recommendations in the original audit report. The departments taking the lead to implement the recommendations are: Operations & Maintenance (O&M), Contracts and Procurement (CAP), and Finance (previously Finance and Accounting). Below is a summary of the current status of the audit recommendations:

Lead Department	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations
Operations & Maintenance	0	12	1	3	16
Contracts and Procurement	0	5	0	0	5
Accounting Unit	1	11	1	1	14
Total Recommendations	1	28	2	4	35

Highlights of recommendations that have been implemented during the previous three months, include the following:

- The O&M Department has taken a proactive approach to develop corrective action plans with proposed implementation milestones and dates for each recommendation. For example, the O&M Department will be leveraging the various technologies and tools available and has been working closely with the IT Department to implement new and more efficient processes to expedite the receiving process. Specifically, the O&M Department will be using Agency-issued cell phones to scan, upload and submit the delivery documents to a designated electronic folder where the administrative assistants have immediate visibility and access to begin processing the receiving into SAP. This process has already been piloted at one plant and is now being rolled out to all plants. With this new process, the O&M Department has set a goal to ensure receiving is completed into SAP within 5-7 days; this is a tremendous improvement when compared to the original audit findings, where it was noted that receiving was taking an average of 23 days. With this shortened receiving time frame, it will allow the Accounting Unit the remaining 23-25 days of the month to process timely payments for Chemical vendors. IA proposes testing the results of the new processes once the new procedures have been fully established for all plants.
- Another item to highlight, the O&M Department will be working on a Department Standard Operating Procedure (SOP) to document the process for performing the receiving function and for monitoring the related Purchase Orders. The O&M

Department has committed to finalizing the draft SOPs by early March 2022. IA is available to provide a review of the proposed draft SOP.

- Accounting has been working closely with the IT department to develop monitoring reports that Accounting can use to have greater visibility of all payable items that come in. The reports will assist with sorting items, planning, prioritizing and scheduling payments with the end goal of ensuring payments are made on time.
- Accounting has also committed to drafting a SOP to document the many processes involved with processing timely payments, including reviewing, matching, and processing for payment. The draft SOP is planned to be completed by June 2022.
- Both O&M and Accounting have periodic meetings together to discuss pending payable items that require attention. According to the departments, the meetings have been a positive forum to discuss questions and follow up on items.

The attached table provides a status for each of the thirty-five (35) recommendations, showing the Departments' responses and planned implementation dates and the agreed upon status for each. IA will provide another update in June 2022.

For additional details and information related to background, findings and recommendations, IA refers readers to the original audit report, dated November 24, 2021, *Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals*, which was received and filed by the Board of Directors in December 2021. The report can also be accessed through the Agency's Intranet website or requested from the Manager of Internal Audit.

Acknowledgements

IA would like to extend our appreciation to the Operations & Maintenance, Accounting and the Contracts and Procurement Department staff for their cooperation and assistance during this review and look forward to the continued collaboration.

Discussions with Management

IA met with each of the respective Department managers and representatives to discuss the observations, the status of each recommendation, and corrective action plans. Where possible, their comments have been incorporated.

The Accounts Payable Operational and Internal Control Audit Report – Procure to Pay Processes for Chemicals – Quarterly Update for March 2022 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.

Audit Committee Quarterly Update - March 7, 2022
 Audit Report Recommendations Status for the
 Accounts Payable Operational and Internal Control – Review of Procure to Pay Processes (P2P) for Chemicals Audit Report

P2P CHEMICALS - ALL AUDIT RECOMMENDATIONS

Reco #	Dept(s) taking the lead	Recommendation	STATUS				Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
			Implemented	In Progress	Not Implemented	No Longer Applicable		
1	Operations	Consider using the department scanned shared drive to "park" delivery documents and ensure other department staff know where to access those receiving documents. OR 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.				X	Operations will address Recommendation #1 by completing Recommendation #3.	IA will consider this recommendation No Longer Applicable because O&M will implement Recommendation #3 which is leveraging the use of iPhones to complete and expedite the scanning, copying and emailing of the receiving documents.
2	Operations	Consider the feasibility of purchasing and servicing an additional scanner to be placed in closer proximity to the operators that have the Receiving documentation. OR See next recommendation below for leveraging other technologies.				X	Operations will address Recommendation #1 by completing Recommendation #3.	IA will consider this recommendation No Longer Applicable because O&M will implement Recommendation #3 which is leveraging the use of iPhones to complete and expedite the scanning, copying and emailing of the receiving documents.
3	Operations working with BIS/ISS	Consider the feasibility of leveraging the use of iPhones to perform the scanning and emailing receiving documentation immediately upon verification of receiving chemicals. 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).		X			A Standard Operating Procedure (SOP) will be created to utilize Operators phones to scan and email the Bill of Lading (BOL) from the field. Beta Testing of the function will be done through January 7, 2022. Upon successful testing, it will be implemented for North & South Operations by January 31, 2022. We are meeting with BIS/ISS to create unique email that will possibly go to LaserFiche to be accessed by staff to complete the receiving in SAP. While the few times it was tested the process was successful another option will be tested. The January 4, 2002 meeting with Daniel S. discussed and tested using OneDrive for the scanning in the field function. Initial testing appears to be easier than the first option. We will start Beta testing on January 7, 2022 with the Sr. Operator of Flow at RP-1. The noted timeline is below: - week 1 – Testing OneDrive with Sr Operator - week 2 – If successful it will be rolled out to the Flow Section at RP-1 - week 3 – Will roll out to all section of RP-1 - week 4 – Review how well this process is working and discuss the rollout to facilities one by one. A January 13, 2002 meeting was scheduled with other personnel to discuss options of using Laserfiche, AIM, or TEAMS for storage of the BOL. On January 18, 2022 the roll out to RP-1 will be on 1/19/2022. 2/1 Roll out for RP-1 will be complete 2/3 - already being used by TP-1, Front half solids and flow. The Training Document is being tested and will be available soon.	IA will consider this recommendation In Progress per the proposed corrective action steps as provided by the department. Currently, new process has been implemented at one plant. Items pending for full implementation: 1) all plants and all staff using the same procedure to scan/copy/email/upload documentation. 2) Complete, documented SOP. O&M staff indicated the new SOP will be drafted by March 3, 2022.
4	Operations working with BIS/ISS/RM	Determine where the original delivery/shipping documentation should go. (Department, Accounting or Records). 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).		X			Working with BIS/ISS to possibly have an electronic copy to be stored in Laserfiche. We will engage Records Management to confirm where/how the hard copies should be stored. 1/5/22 Bonnie met with Records Management and discussed the retention of the hard copies of the BIL. They determined that the hard copies are "conveyance copies" and we can keep them or shred them as we see fit. My recommendation is that we keep the hard copies for up to a year and then put them in the shred bin. 1/13/22 Meeting scheduled with DH, KP, SL & BM to discuss options. Further discussions will be made to see what will work best. Currently we are going to use AIM.	IA considers this recommendation to be In Progress because O&M is working on implementing Recommendation #3 and currently has rolled out the new procedure at one plant. The recommendation suggests to determine where the original documentation should go. O&M is choosing to rely on the electronic versions and keep originals on file for one year since these are not required for Records Management. Once the process is implemented across all locations and there is a documented procedure (SOP), IA will consider this recommendation implemented. Planned date for draft procedure is March 3, 2022.

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5	Operations	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		X			Operations will address Recommendation #5 by completing Recommendation #3.	IA considers this recommendation to be In Progress because O&M is working on implementing Recommendation #3 and #4. (see IA comments to #3 and #4 above). Once all plants are employing the new process, IA will consider recommendation as implemented.
6	Operations working with AP	Standardize, for all plants: -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). 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).		X			Partially addressed in recommendations three (3) and four (4). A SOP will be created for the steps to complete the receiving of the chemicals in SAP including how to handle the hard copies and if notification is needed to AP. An email was sent to AP on January 3, 2022 to get confirmation that emails are not necessary. Currently, we are not required to send emails to AP.	IA considers this recommendation to be In Progress until the SOP is documented, signed and finalized and staff training is planned. O&M plans to have a draft SOP by March 3, 2022. Specifically, the SOP should address what documents should be uploaded into SAP. Accounting would like to see all delivery documents uploaded, including the Bill of Lading.
7	Operations/ AP	Standardize, for all plants a consistent methodology for the receiving function in SAP: -Standardize the admin's process for perform receiving in SAP. Reduce the need for multiple electronic copies and emails. Ensure all receiving documentation: Bill of Lading, all delivery documentation is uploaded into SAP at the time the admin performs receiving. Determine and streamline the need for the several emails and attachments among the operators, admins, and AP staff.		X			Operations will address recommendation seven (7) by completing recommendation six (6).	IA considers this recommendation to be In Progress until the SOP is documented, signed and finalized. IA will validate the new procedure is working. Need to know department's planned date for SOP to be finalized.
8	Operations working with AP and CAP	Formalize and document Agency Policies or Department SOPs to: *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.		X			This recommendation been addressed in recommendation six (6) with the creation of the SOP. <u>CAP response:</u> CAP Recommends staff fully fund a purchase requisition (PR) and purchase order (PO) with actual budget for the fiscal year and not use a Supplemental Budget work around to get the PO to process. Plan for an approved budget for chemicals based on historical data of usage and spend over the previous years and add CPI (Consumer Price Index) factor so the PO won't run out of funding toward the end of the fiscal year if there is a price increase. Suggest a possible use of a blanket PO to receive and pay invoices vs. multiple line items on a PO for different locations. Possible suggestion is a BPA Release PO for each site in support of being able to track costs per facility. Could we explore treating the chemicals & budget like the Warehouse inventory's budget. Treat chemicals like inventory with MPR replenishment. Another idea is put vendor monitoring devices on tanks such as ferric and bleach to alert supplier when tank is low and auto replenish similar to what IERCA has on their Diesel Fuel Tank. Tie into SCADA verification and auto receiving against the BPA PO per location.	IA considers this recommendation to be In Progress until the SOP is documented, signed and finalized. IA will validate the new procedure is working. Department's planned date for SOP draft is March 3, 2022.
9	Operations working with AP	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.		X			This recommendation will be addressed by completion of recommendation six (6) with the creation of the SOP.	IA considers this recommendation to be In Progress until the SOP is documented, signed and finalized. IA will validate the new procedure is working. O&M plans to have a draft SOP by March 3, 2022.
10	Operations	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures and any updates are communicated promptly.			X		Annual training will be provided.	IA considers this recommendation to be In Progress until the SOP is documented, signed and finalized. IA will validate the new procedure is working. O&M plans to have a draft SOP by March 3, 2022.

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11	Operations working with BIS	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.		X			This recommendation been addressed in recommendation six (6) with the creation of a SOP. Additionally, we are meeting with BIS to create aging reports and KPI reporting to ensure consistent receiving is completed.	IA considers this recommendation to be In Progress until all other recommendations are implemented and SOP is drafted.
12	Operations Working with BIS	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.		X			<p>We have met with BIS to discuss KPIs. A report will be developed in January 2022 and available in BI Launchpad after testing of the data has been completed. The report will provide the following information and the ability to view how long it has taken the receiving to be completed from when the chemical came into the plant and how long it has taken for an IR to be posted after the GR posting date. It will have the capability to filter by Document Date, GR Posting Date, IR Posting Date, Employee who did the receiving, and how long it took to receive.</p> <p>On January 12, 2022, we met with KP and Joseph to discussed what is available and what is needed to develop the report on our side. We would like the report to look similar to the aging report used on the Contract Expiration Report. Will meet again in 2 weeks with the a mock up of the report.</p> <p>1-5 6-10 10-30 30-60 60+</p> <p>On January 18, 2022, we received Mockup of the Report from BIS. The next meeting with them is scheduled for January 26, 2022.</p>	IA considers this recommendation to be In Progress until KPIs and other metrics, goals, and objectives are finalized. IA was able to review the draft mockup report created by BIS for O&M to track timeliness of the receiving process.
13	Operations working AP	<p>Consider eliminating the receiving function before issuing payments for chemicals, so that</p> <p>AP process payments without waiting for the receiving function. Determine the feasibility to reconfigure and implement the change in SAP.</p> <p>Determine how the "after the fact" reconciliation of receiving documents to POs and invoices will be completed to ensure proper oversight is performed.</p> <p>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.</p>				X	<p>This would be ideal and take Operations out of the initial part of the process. We have scheduled a meeting with AP to get educated and discuss options: Initial feedback from AP is that they are advocating against it.</p> <p>On January 3, 2022, we met with AP and below is their feedback: The utilities bills are paid first to a "holding" account, and then the expense is subsequently allocated and accounted for the in the financial records after-the-fact. This is an exception to the Agency's Internal Control Environment, and while it allows for timely payment it does not save my staff time or effort. Using the normal procurement process also allows for budgetary controls, including using POs to encumber funds and therefore helps prevent budge over-runs. While some time savings may happen on the front end of the P2P process, eliminating receiving would cause a lot of work on the back-end as Accounting staff would need to go back and figure out to which accounts to charge after paying, and so forth. At this time we believe that Operations will continue to complete the receiving in the normal process and may revisit this option at a later date.</p> <p>CAP response: CAP does not recommend eliminating receiving on the front end. Possible automation of receiving was discussed with Don Hamlett in using SCADA to verify delivery and receipt of chemical and then interface with SAP to expedite the receiving.</p>	IA will consider this recommendation No Longer Applicable at this time because the departments want to implement other efficiencies and recommendations before considering this recommendation. At this time, this recommendation will be closed.

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14	CAP working with O&M	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.		X		<p>All POs cannot be created for the entire year because each contract has a different end date. For instance, the Sodium Hypochlorite contract ends on 8/31 of each year. A PO has to be issued for the 1st two months and then for a short while there will be 2 POs for the chemical while the receiving documents from 7/1-8/31 are being paid.</p> <p>CAP does assist with moving money around on the lines of the PO in order for Staff to receive and pay the invoices. In addition, CAP does wait for an approved PR to augment the PO with additional funds.</p> <p>If the PO was funded fully originally at the start of the fiscal year, this would not become an issue at the end of the fiscal year.</p> <p>If recommendation to use only one (1) lump sum line on a Blanket PO to receive and Pay invoices is utilized, this would alleviate the need to move money around on a PO from one line to another. The only concern is different pricing for different delivery quantities. Discussions with Staff have been in regard to they have only been ordering the largest quantities and no longer ordering split or smaller shipments as of late.</p>	<p>Follow up needed by IA for clarification on response. Right now the recommendation appears not implemented.</p> <p>IA needs specific clarification on the plans for CAP to provide: Training, Information and Continuous Communication to ensure O&M staff understand establishing POs for the known forecasted amount and sufficient funds for the full year.</p>
15	O&M working with CAP & Accounting	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.		X		<p>O&M Response: The process is that at the beginning of the fiscal year each chemical contract is reviewed and a PR is put in place taking into consideration when the contract ends. The Budget is divided by 12 and that total is then multiplied by the number of months left on the contract. For instance if the contract ends 8/31 the PR is put in place with 2 months worth of budget. Once we receive the new contract/amendment a new PR will be put into the system within 7 days of receiving the signed contract/amendment. The POs are monitored monthly by the Administrative Assistant using the Open PO Report and quarterly by the Administrative Assistant and Manager of Operations to ensure that the POs are properly funded.</p> <p>CAP Response: This is already in process, however some of the contract amendments and all new contracts have to go to the Board for approval which can cause a slight delay in getting the PRs into SAP in a timely manner.</p> <p>There is a continuous proactive monitoring of pricing and expiration of the contract between CAP and O&M through the Contract Expiration report sent out monthly. There is also a discussion with O&M when the vendor reaches out to CAP Staff to discuss CPI or higher pricing increases on a yearly basis.</p> <p>CAP Staff reaches out to Project Manager to discuss any price increases. Once the negotiated price increase is agreed upon, an Amendment is executed, and copy sent to O&M Staff. There isn't a delay in processing a new PO with revised pricing as the first PO runs concurrently due to old pricing receiving and invoicing usually isn't completed prior to a new PO with amended pricing is established.</p>	This recommendation is considered In Progress because O&M has a plan to document an SOP with a timeline. O&M will work with CAP and CAP has stated they are available to meet and assist with an SOP review and information on the process for POs.
16	CAP working with O&M	<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>		x		<p>CAP Response: This is currently done, but please note there are times when a process change or a major increase on prices happens this will cause the forecast to need to be redone and new PRs have to be entered. At times, these prices changes are so drastic that we need to transfer funds from other places to cover the costs.</p> <p>CAP recommends fully funding the PO at the beginning of a fiscal year and not using a supplemental budget transfer to work around this issue.</p> <p>CAP has requested BIS send out the Open PO Report on a monthly basis identifying the open POs and balances/expenditures.</p>	<p>This recommendation is considered in progress because CAP indicated they plan to take the lead to provide additional training prior to the Budget preparation. Training will include anything the department requires including funding POs and monitoring POs using the Open PO report.</p> <p>CAP indicated that they can discuss any of these items through the CAF Cafe sessions as well as additional department training.</p> <p>IA will continue to follow up on the issuance of the Open PO report on a monthly basis to help departments identify and review their PO balances.</p>

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17	CAP working with O&M and Acct	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.		x			<p>O&M/ CAP and Acct will address recommendation #17 by completing recommendation #16.</p> <p>CAP Response: CAP supports the idea of O&M Staff monitoring their Open PO report for all procurement needs.</p> <p>CAP has requested BIS send out the OPEN PO Report on a monthly basis identifying the open POs and balances/expenditures.</p>	See IA comments above in #16.
18	O&M working with CAP and Acctng	CAP and Accounting should assist O&M in documenting proper SOPs for funding POs		X			<p>O&M Response: O&M stated that an SOP will be created. Process SOP is planned for March 3, 2022.</p> <p>CAP Response: CAP will support O&M with assisting Staff in any clarification to their process so that the receiving and paying of invoices is a smooth transaction.</p> <p>CAP also indicated that monitoring can be addressed through CAP Café discussions and other periodic meetings or provide training.</p>	<p>CAP indicated they are available to assist in reviewing SOPs to ensure the process is smooth in the setting up and funding of POs, PRs and continuous monitoring is occurring to ensure funding does not run out.</p> <p>CAP also stated that the Open PO Report with facilitate in monitoring POs.</p>
19	CAP working with O&M and Acct	CAP & Accounting should assist with providing periodic training to O&M on properly funding POs.		X			<p>CAP stated that annual training will be provided.</p> <p>CAP Response: CAP Staff have always been available to train and assist O&M on properly funding POs. CAP will work on the development of a training & awareness curriculum for existing and new hires utilizing the CAP brownbag presentation main topics, BIS Training videos and documentation, along with monthly Teams meeting for staff on SAP functions, process flow and understanding with tips and tricks emails throughout the year. CAP will enlist the help of AP to facilitate any PR Account Assignment training.</p> <p>CAP currently hosts Monthly MPR meetings with numerous departments to support open purchasing activities, future procurement or contract needs. Additionally, CAP will be initiating another open forum and training session called CAP Café.</p>	This recommendation is considered In Progress until training has been developed and provided. Is there an planned date for training to be provided? And how often will training be provided (the recommendation recommends training be periodic).
20	CAP working with O&M	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.		X			<p>This is already in process, however some of the contract amendments and all new contracts have to go to the Board for approval which can cause a slight delay in getting the PRs into SAP in a timely manner. Will utilize CAPs biweekly meeting to address any bottlenecks.</p> <p>CAP response: CAP continuously coaches and assists end users with their PR creation and PO adjustments in SAP throughout the year and will continue to do so. CAP currently hosts Monthly MPR meetings with numerous departments to support open purchasing activities, future procurement or contract needs. Additionally, CAP will be initiating another open forum and training session called CAP Café</p>	IA will consider the recommendation In Progress. Follow up needed by IA for clarification on response. What is the MPR meetings? How often and who attends? What is the purpose of the meeting? Who is invited to the meetings? Are any agendas prepared?
21	Acctg working with O&M & CAP	<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>AP 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>		X			<p>Accounting Response: Splitting the invoice data entry into SAP from the matching and payment processing into two different processes has been working well since implementation in early summer, 2021.</p> <p>Additional information: As of January 2022, this invoice intake process is being performed by temporary staff; however, recruitment is currently underway to hire two part-time interns to perform this task.</p> <p>This process will be integrated into the SOP of the department (see also recommendation 26 regarding creation of SOPs.)</p> <p>Recommendation #21: On February 17, Lauramae (IT) forwarded instructions on how to download the held/parked invoice information in SAP (from the Invoice Overview Screen, aka mir6) into Excel. I have tested the instructions, and it worked. I will need to change the fields displayed so the vendor names show up; the instructions will be updated to include that step, and then we'll integrate those instructions into our desk manuals. Somewhat related to this recommendation, the "intake" process is going to be transferred to the new interns joining the Agency on 2/28/22. Please see recommendation # 26 for details about SOPs.</p>	This recommendation is considered In Progress. Accounting has worked with IT and there is now a way to export the information into a report that can be used to sort and prioritize items. The process for how and when to use the report should be documented in a SOP. Planned date for full implementation is 2/28/22.

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22	Acctg working with BIS	Accounting 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. Accounting 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.				X	Accounting Department management agrees with the recommendation to document specific procedures for performing a 3-way match and processing vendor payments in SAP (see also recommendation 26.) Due to the variation between vendors, payment types, as well as staff's preferred method of processing, there can be different ways to process payments that are equally valid and efficient. Currently, the goods receipt / invoice receiving report (aka "GR/IR," via SAP transaction code FB3LN) is used by AP staff throughout the day to determine which invoices to process based on the document date column, processing the oldest invoices first, based on vendor terms programed within the vendor database. Note: there is currently inconsistencies in the use of the "document date" field in SAP by receivers, which leads to AP staff not always selecting the most urgent invoices (see recommendation 10.) Through the bi-weekly meetings between AP staff and the Administrative Assistants (receivers), reinforcement and training will continue to be provided to receivers on the correct use of SAP data fields that feed into the GR/IR report (see also recommendation 28.) Accounting management will review the methods currently used by AP staff to pay vendors and identify best practices to include as part of SOP creation. Additionally, Accounting management will consult with BIS to determine if there are any reports or other best practices that could eliminate the inefficiencies of AP staff having to navigate through several screens in SAP to verify receiving.	The first part of the recommendation re to an existing report for a 3-way match is no longer applicable. As BIS has indicated there is no report to assist with the 3-way match. Is there a planned date for implementation of a formal procedure for performing the 3-way match and process payments? Need estimated planned date for implementation. This recommendation regarding an SOP is also included in other recommendations; therefore, this recommendation will be closed and no longer applicable.
23	Acctg working with BIS	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. OR 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. AND Accounting should formalize and document specific procedures for how items are selected for matching and processing for payment before the due date.		X			As of January 2002, the Accounting Department continues to have staff vacancies, specifically replacement of an Accounting Technician who retired as of June 2021. The lack of staff has created a "triage" situation within the department, and when end-user's department staff or vendor representatives inquire about an outstanding invoice, that invoice will demand AP staff's attention and be processed as quickly as possible. Given the volume of vendor payments to be processed vs the current staff workload capacity, it's difficult for AP staff to proactively identify invoices that are overdue. However, we disagree that staff are waiting to process payments until someone inquires. Instead, AP staff process payments based on: product/service being purchased (for example, priority is given to chemical vendors since the product is critical to plant operations), and if the goods receipt has been performed (i.e. ability to perform the 3-way match.) Accounting management agrees it would be very helpful to be able to extract data from the SAP Held Screen (code MIR6 in SAP) and has advised BIS of our request. We will continue to work with BIS to create a report, or data extraction capabilities (i.e., export to Excel), of invoices pending on hold. We additionally agree documented SOPs for vendor payment processing is needed (see also recommendation 26.) Further, management is considering updating the criteria used by SAP to select which payments to process, so that payments will be picked up by the system for processing prior to the due date (see also recommendation 25.) Additionally, the Accounting Supervisor is working closely with AP staff to help prioritize which payments to process, especially given the current workload and need to triage which invoices get processed first. Accounting management has reviewed with the IT Department what the Controller is calling the "P2P monitoring report" (not sure what the official name is?) that the IT Unit has developed. We believe the report will be useful to proactively identify items that are pending and will potentially delay payment, as well as be more helpful than a traditional "aging" report for this purpose. As a reminder, SAP does already have an AP aging report, but it only captures the transactions once received as that's when the liability is booked to the balance sheet. See also recommendation #21 regarding extracting held invoice data, as well as #26 regarding SOPs.	Parts of the recommendation have been address. this recommendation is now considered In Progress. Additional corrective action plans and planned implementation dates need to be specified. Accounting and BIS have worked together and have been able to identify a method for extracting the Held Invoices report to excel for sorting and review. (as of 2/14/2022 BIS sent instructions for exporting the Invoices Held report, do these instructions work? and how does Accounting plan to use the report and invoices? The recommendation also mentions the use of an Aging Report? Does Accounting run the Aging Report? If so, how is it used? Does accounting need to work with BIS to update this report? if so by what date will this be done? The recommendation provides for a formal and documented procedure. Is there a planned date for full implementation of the SOP? IA has some comments/recommendations on the draft SOP provide. Does Accounting have planned timelines for each of these items in the recommendation? Please provide timelines for an In Progress Status.

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24	Acctg	<p>Accounting - 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.</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. 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.</p>		X		<p>Accounting management disagrees that AP staff do not work proactively and collaboratively to research any delays/blocks for processing invoices for payment. Throughout the day, AP staff reach out to various department receivers, managers, as well as staff in Finance to attempt to resolve any issues preventing payment as quickly as possible. If there is no immediate solution to the issue, AP staff place the invoice back on hold pending resolution; usually, these delays relate to no receiving in SAP, so the 3-way match cannot be performed. Other times, the inability to process payments is due to lack of purchase order capacity or a budget block, in which case AP staff will contact both the requesting department staff as well as staff in Finance to resolve the issue. We believe the implementation of Internal Audit's recommendations to improve efficiency for receiving, as well as improved budget monitoring by Department Managers, will reduce the need for AP staff to continue to follow-up with other Department staff and thus allow for more time for payment processing as well as help to eliminate inefficiencies caused by AP staff task-switching. Accounting management agrees documented SOPs for vendor payment processing is needed (see also recommendation 26.)</p> <p>Response provided 2/27/22 Staff continue to collaborate with other department staff to resolve any delays/blocks. However, due to delays in filling vacancies in the Accounting Unit, the Accounts Payable group continues to operate in a triage mentality versus having an opportunity to be more proactive as recommended. Two part-time Interns the are scheduled to start the week of 2/28/22 and an additional Accounting Technician (to fill the vacancy due to a retirement) on 3/7/22. Additionally, one limit term position and two additional temporary staff have now been approved by the Agency Leadership. The rest of this recommendation is to create SOPs, which is in progress; please see recommendation # 26. The observation from which this recommendation is derived noted that "...the invoice is placed back on hold" if receiving is not done; please note that this will not change with the documented procedure, as we cannot process without the 3-way match. Further, using the Excel download of the held invoice information as noted under recommendation# 21, as well as the new P2P Monitoring Report as noted under recommendation # 23, will allow staff and management to be more proactive to resolve any delays/blocks with processing invoices for payment.</p>	<p>IA considers this recommendation Not Implemented.</p> <p>The recommendation states to formalize and document specific procedures for how items are selected for matching and processing for payment before the due date.</p> <p>Is there a planned date for implementation of a formal procedure for performing the 3-way match and process payments? Will the procedure specify the action states staff should take to ensure payments are made by the due date? Please provide a planned action to address the recommendation and a corrective action date.</p> <p>As a note - these steps were documented during the discussion and walkthrough with AP staff and we asked for confirmation several times and never received confirmation. For this reason, IA encourages Accounting to formalize and document their SOPs.</p> <p>Based on the response provided on 2/17, this recommendation will be considered In Progress, pending documentation of formal SOPs.</p>
25	Acctg	<p>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.</p>		X		<p>Accounting management disagrees that all invoices are paid in the month after the due date. The table within this report titled "Late Payment Analysis" shows 57% of invoices are paid on time; and in the following table titled "Number of Invoices Paid Late..." of the total 935 invoices reviewed, 534 invoices were paid on time and 296 are paid within the following 30 days. The payment cycle is already defined as one week (Thursday – Wednesday), with physical checks only issued every other week. Currently, AP staff do not manually select which payments to issue; instead, SAP is setup to only process pending payments which are due or overdue on or after the payment date entered by AP staff (each week on Thursday). Accounting Management agrees SAP should be reprogramed to issue payments with invoice due dates prior to the payment date. With consultation from Executive Management over Finance, Accounting, and BIS on this change in the Agency's business practice, we will work with BIS to implement this change. Since this recommendation may require reprogramming of SAP, we must defer to BIS for the implementation timeline.</p> <p>Response on 2/17/2022: Accounting managment has met with IT Department on February 10th to discuss the need to update the business rules in SAP so that payments are process before the due date. Currently the system is setup to only process invoices which are due or past due prior to the next payment day; we have proposed to change the business rule so that payments due within 5 days are also processed. This recommendation is dependent on IT making this change in SAP, and we have not heard back from IT regarding the timeline for implementation.</p>	<p>IA considers this recommendation Not Implemented.</p> <p>The recommendation is suggesting that Accounting work with BIS to evaluate the feasibility of reconfiguring SAP to "flag" when an item is past due before the actual due date. Accounting should also discuss the "business decision" of when payments need to be made and incorporate that Agency policy into the documented SOP.</p> <p>Has Accounting initiated discussions or a plan to work with BIS to see if this id completed. Who will take the lead on this recommendation. IA suggests Accounting take the lead to discuss the possibilities since it does impact work load and prioritizing. Is there a planned date for testing this reconfiguration?</p> <p>2/14/22 Discussed during Strike Meeting that progress was made. Can you provide a proposed date for implementation or a test date of what will happen to make this change?</p> <p>2/17/22: Per response, this recommendation will be considered In Progress due to on going discussions, and until full implementation is complete.</p>

Audit Committee Quarterly Update - March 7, 2022
 Audit Report Recommendations Status for the
 Accounts Payable Operational and Internal Control – Review of Procure to Pay Processes (P2P) for Chemicals Audit Report

26	Acctg	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.		X		<p>Accounting Management agrees there is a need for documented SOPs for payment processing in order to establish consistence procedures and strengthen the internal control environment. We will complete a draft of SOPs for Executive Management review no later than January 31, 2022 and/or once all recommendations and changes affecting AP processes have been implement.</p> <p>Response on 2/17/2022: SOPs are in process; however, they are taking much longer than anticipated, particularly given the unresolved lack of personnel capacity in the Accounting Unit. As noted at the Strike Team meeting, the AP Process Overview SOP was not ready for any sort of review but was forwarded only as evidence of the progress being made. The plan is for the Controller to continue to work on the AP Process Overview SOP, while the AP staff formalize and review all the various desk manuals, guides, cheat sheets, and other various references that are provided to staff. By February 24th, we will have the Mail / Invoice Intake desk manual completed which will be used to assist in training the new Interns onboarding the week of February 28th. By March 24th the Accounting Unit will submit a draft of the Process Overview SOP that is ready for review by the IA team, which will include the references (names) of the other desk manuals. We might combine some of the desk manuals or turn others into a full separate SOP? The new (more realistic) goal for this entire project is the end of the fiscal year, June 30.</p>	<p>IA considers the recommendation In Progress until the SOP is fully documented, finalized, distributed to staff for training.</p> <p>A Draft SOP was forwarded. IA will provide review comments and recommendation to consider in finalizing the SOP. This recommendation suggests an SOP for the 3-way match, other recommendations suggest SOPs for other processes and procedures within Accounting.</p>
27	Acctg	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.			X	<p>Accounting Management agrees AP staff should be provided training on any new processed established as the result of this review. The Accounting Supervisor will be responsible for ensuring the existing staff as well as new AP staff are trained on the SOPs, on an ongoing basis. In addition to training sessions, the Accounting Supervisor regularly meets with the AP team and will use those meetings to reinforce best practices as well as any updates to the SOPs.</p> <p>Response on 2/17/2022: See recommendation # 26 regarding timeline of SOP creation. As previously noted, training will be provided to new staff as they onboard, as well as on an ongoing basis. The SOPs will be distributed to all AP team members, and evidence of the distribution will be provided to IA as it occurs. While the SOPs are mostly documenting processes that are already occurring, any new or changed procedures will be communicated to the AP team via their weekly meetings with the Accounting Supervisor over AP.</p>	This recommendation is considered not yet implemented because there are no final SOPs to provide staff training. Once all SOPs are formalized and finalized, Department management can determine how to best provide training and information on the new SOPs, a plan of action for that training can be provided as a response to this recommendation after SOPs are documented.
28	Acctg working with O&M	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.	X			<p>Accounting Management agrees that periodic meetings with the Agency's administrative assistants should continue. Currently, these meetings are being held bi-weekly. Additionally, the Accounting Supervisor over AP should be notified when there are staff are reassignments or employee responsibilities related to the P2P process change, so that appropriate staff can be included in these meetings.</p>	This recommendation is considered implemented as the meetings with Accounting and the administrative assistants continue and have been on-going and they appear to be helpful and beneficial to all involved.
29	Acctg working with BIS	Accounting should 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.		X		<p>Accounting Management agrees performance metrics and goals for on-time payments should be established. We will work with BIS to create any reports needed to monitor our department's adherence with the performance metrics. Accounting department management will use the established metrics to continue to monitor timeliness of vendor payments, identify the cause of transactions not meeting these goals, and how to prevent such delays. The Accounting Supervisor will further consider these metrics as part of their probationary or annual evaluation of AP staff's job performance.</p>	<p>IA considers this recommendation not implemented at this time. Does Accounting have a timeline for establishing KPIs, goals and objectives and a method to measure how timely invoices are paid?</p> <p>Based on this new response, this recommendation will be considered In Progress until all Key Indicators are formalized and more defined measurements/goals are established, and the monitoring reports are being used to measure what is intended to measure. Once this practice is in place and consistently applied, the recommendation will be considered Implemented.</p>

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30	Acctg working with O&M	Document and formalize an Agency Policy or Department SOP about the requirement for completing receiving, matching, and processing payments. -Specify the types of documents that should be included and verified in SAP or other required reports, before payments are processed. -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.		X			The Strike Team responded that the recommendation will also be addressed in recommendation six (6) with the creation of a SOP. Accounting management recommends the Bill of Lading continue to be attached to the receiving transaction in SAP by the receiver. Receiving support documents, such as the Bill of Lading, assists AP staff in verification of the 3-way match since sometime the information on the invoice doesn't align with the information on the purchase order and/or to resolve errors in the receiving that may prevent payment processing. Hard copies of documents do not need to be forwarded to the Accounting Department.	Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress.
31	Acctg working with O&M	Document and formalize in an Agency Policy or Department SOP about the requirement for completing receiving, matching, and processing payments. -Specify the types of documents that should be included and verified in SAP or other required reports, before payments are processed. -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. 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.		X			Accounting management agrees SOPs need to be created to document the vendor payment process (see also recommendation 26.) Accounting management will follow-up with BIS to create a report or the ability to pull data from the hold screen (MIR6) to determine how long invoices have been pending payment (see also recommendation 23.)	Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress.
32	Acctg working with O&M	Document and formalize in an Agency Policy or Department SOP about the requirement and expectation for the accuracy of data entry. -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. -Specify when it is allowable and when it is not allowable to back-post or post-date information.		X			The Strike Team responded that the recommendation will also be addressed in recommendation six (6) with the creation of a SOP. Accounting management agrees a formal Agency Policy regarding appropriate use of data fields within SAP is needed. For AP processes, the data field usage will be defined within the AP SOPs (see also recommendation 26.) Accounting management will further consult with other Agency departments regarding suggested best practices to incorporate within SOPs over SAP receiving or other P2P processes. Additionally, the Accounting Supervisor will provide feedback and training to receivers on the use of SAP data fields as part of the ongoing bi-weekly coordination meetings with Administrative Assistants (see also recommendation 28.)	Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress.
33	Acctg working with O&M	Document and formalize in an Agency Policy or Department SOP about the requirement and expectation for the accuracy of data entry. -Specify what is an acceptable best practice and approximate time frame for processing the invoice, complete the 3-way match, and process for payment. -Specify how invoices uploaded are monitored to ensure that items are processed by the payment terms. -Specify how delayed items should be handled and communicated with the goal of issuing payment by the payment terms.		X			The Strike Team responded that the recommendation will also be addressed in recommendation six (6) with the creation of a SOP. Similar to recommendation thirty three (33), Accounting management agrees a formal Agency Policy regarding appropriate use of data fields within SAP is needed. For AP processes, the data field usage will be defined within the AP SOPs (see also recommendation twenty six (26).) Accounting management will further consult with other Agency departments regarding suggested best practices to incorporate within SOPs over SAP receiving or other P2P processes. Additionally, the Accounting Supervisor will provide feedback and training to receivers on the use of SAP data fields as part of the ongoing bi-weekly coordination meetings with Administrative Assistants (see also recommendation twenty eight (28)).	Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress.
34	O&M	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. -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 -Specify what is an acceptable best practice and approximate time frame allowed for the Administrative Assistants to complete the receiving in SAP. -Implement recommendations provided in Recommendations #1-12 above to streamline the receiving process.		x			The Strike Team responded that the recommendation will also be addressed in recommendation six (6) with the creation of a SOP. No responded provided by the Accounting Department.	Same as Recommendation #3 - O&M is working on drafting an SOP. Need to know department's planned date for SOP to be finalized. Specifically, the SOP should address what documents should be uploaded into SAP. Accounting would like to see all delivery documents uploaded, including the Bill of Lading.

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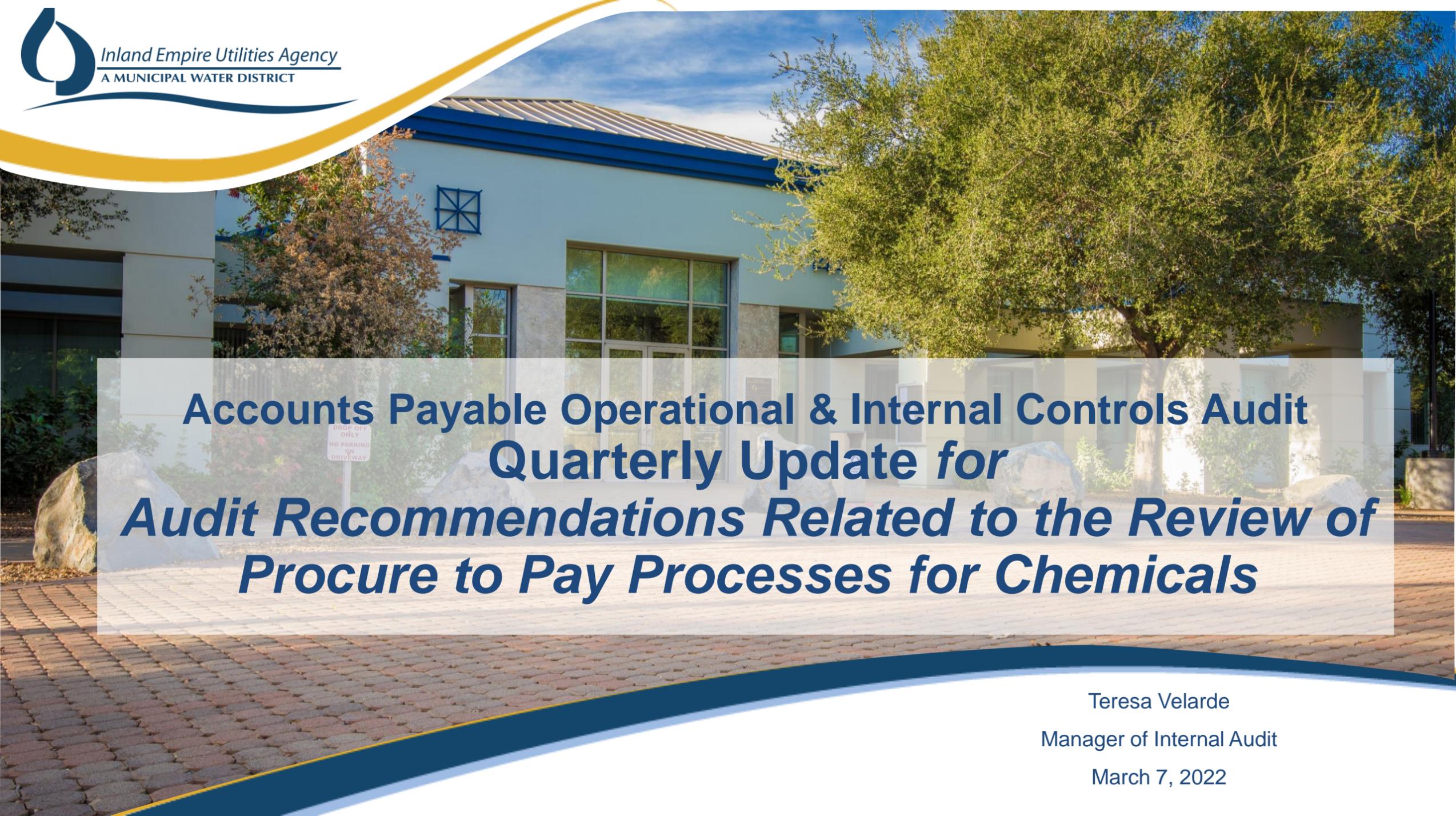
35	Acctg working with O&M	Document and formalize in an Agency Policy or Department SOP about the requirements and expectations for AP staff to open/download invoices, date, upload, match and process invoices in SAP and process payments. Consider establishing KPI's and/or benchmarks to determine a reasonable amount for invoice retrieving, uploading, matching, and posting to be performed and processing the Invoices for payment.		X			Accounting Management agrees there is a need for documented SOPs for payment processing in order to establish consistence procedures and strengthen the internal control environment. We will complete a draft of SOPs for Executive Management review no later than January 31, 2022 and/or once all recommendations and changes affecting AP processes have been implement (see also recommendation twenty six (26)). Accounting Management agrees performance metrics and goals for on-time payments should be established (see also recommendation twenty nine (29)).	Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress.
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Total Recommendations

1	28	2	4
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35

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations
Operations & Maintenance	0	12	1	3	16
Contracts and Procurement	0	5	0	0	5
Accounting	1	11	1	1	14
Total Recommendations	1	28	2	4	35



**Accounts Payable Operational & Internal Controls Audit
Quarterly Update *for*
*Audit Recommendations Related to the Review of
Procure to Pay Processes for Chemicals***

Teresa Velarde
Manager of Internal Audit
March 7, 2022

Quarterly Update: Procure to Pay - Chemicals

Audit Objective

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 Results

- Analysis evaluated the timeliness of over 900 invoices per fiscal year
- Noted that approximately 40%- 50% of chemical invoices were paid late

Internal Audit Observations & Recommendations

There are delays in performing the receiving function and processing payments 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
- Efficient processes to ensure receiving is completed timely
- Establishing proactive procedures to monitor all invoices, follow up on all outstanding invoices and ensure timely payment

Quarterly Update: Procure to Pay - Chemicals

Risks to IEUA

- 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

Strike Team & Focus Problem

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

Members

Internal Audit, Asset Management, Engineering, Contracts & Procurement, Accounting & IT

On Site Observations of Deliveries



Operations & Maintenance

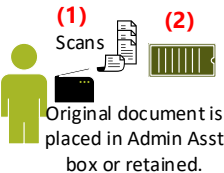
O&M work with the vendor, CAP, & Acctng



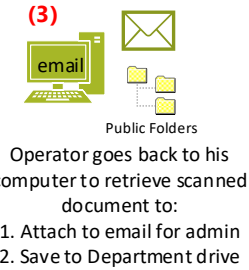
Delivery truck connects directly to IEUA tanks or a forklift is needed to unload.



Delivery vendor provides shipping/delivery documentation to IEUA operator. Operator verifies and signs off and authorizes delivery.



(1) Original document is placed in Admin Asst box or retained. Process varies slightly at different plants. Some keep in their records. There should be a consistent method.



(3) Operator goes back to his computer to retrieve scanned document to:
1. Attach to email for admin
2. Save to Department drive



(4) Admin Assistant uses operator's email to perform Receiving in SAP, they upload receiving documents into SAP and files hardcopies. Admin assistant then emails AP staff to inform them when receiving is complete and forward the same receiving documents.

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.



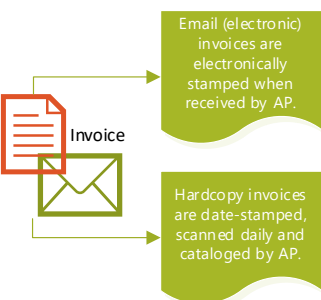
(6) If there is a pricing change throughout the FY, CAP closes the old PO and creates a new PO but only with a new PR prepared by O&M.



(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

Accounting Accounts Payable

Accounting – AP works with vendors, O&M and CAP requesting information.



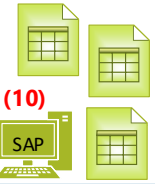
(8) New step as of July 1, 2021:
All invoices are entered into SAP, by temp staff, and posted to the "Held Invoices" report (a database of all incoming invoices) Held for further processing by AP staff in SAP.

(9) There should be a formal, documented method for how items are selected for matching and processing.

When AP receive an invoice for services, AP cannot identify the Agency department responsible for approving the invoice. It is difficult to ensure timely processing if the invoice cannot be sent to the approver.

For goods-related invoices, AP relies on the "Receiving" to be completed by O&M.

AP will research only when invoices have been held for an extended period of time or the department reaches out to AP to process invoices for payment.



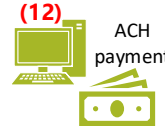
(10) As of July 1, 2021, From the "Held Invoices" in SAP, AP staff will select the invoice for review, verify information, check PO#, once matched to a PO, AP will check that Receiving was completed by O&M. This is done by navigating through various SAP screens and viewing the documentation in SAP. AP will complete 3-way match.

(11) If SAP receiving has not been completed by O&M, the invoice will be placed back on hold and continue to stay in "Held invoices"

If SAP receiving has been completed by O&M, AP will proceed to complete the 3-way match. (At times must address amount adjustments).



If the 3-way match is successfully completed, payment can be processed for payment. If not, go back to steps prior and coordinate with O&M to ensure receiving is finalized or coordinate with CAP to ensure PO has sufficient money.



(12) AP process invoice for payment during the "next" scheduled payment cycle. According to staff, SAP "flags" items when they are due for payment and that is when staff process if all receiving and matching is complete. All chemical vendors are paid through ACH.

Highlights – Operations & Maintenance Unit

- Proactive approach to leveraging the various technologies and tools to implement new and more efficient processes to expedite the receiving process.
- ***With this new process, the O&M Department has set a goal to ensure receiving is completed into SAP within 5-7 days, an improvement from an average of 23 days***
- Department Standard Operating Procedure to document the process for performing the receiving function and for monitoring the related Purchase Orders.
- ***The O&M Department has committed to finalizing a draft of the SOP by early March 2022.***

Highlights – Accounting Unit

- Filling staff vacancies
- Working closely with IT and employing consistent procedures for using monitoring reports to track all invoices and prioritize payments
- Standard Operating Procedure
- ***The Accounting Unit has committed to finalizing a draft of the SOP by June 2022.***

Audit Recommendations Related to the Review of Procure to Pay Processes for Chemicals

Current Status of the 35 Audit Recommendations

Department Taking the Lead	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations
Operations & Maintenance	0	12	1	3	16
Contracts and Procurement	0	5	0	0	5
Accounting Unit	1	11	1	1	14
Total Recommendations	1	28	2	4	35

IA will provide a status of all audit recommendations each quarter until all recommendations have been addressed.



Quarterly Update for Audit Recommendations Related to the 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 for efficiencies, improving and safeguarding the Agency's fiscal health, promoting a strong control environment and assisting the Board and Agency management in achieving compliance with policies and fulfill organizational goals and objectives.

INFORMATION
ITEM
2C

Date: March 16, 2022

To: The Honorable Board of Directors

Committee: Audit


From: Teresa Velarde, Manager of Internal Audit

03/07/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for March 2022

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 the evaluation of the Procure to Pay processes for Professional Services in the Engineering Department, a review under the comprehensive Accounts Payable Operational and Internal Control Audit. IA is also providing a status update on the 35 audit recommendations provided in the Review of the Procure to Pay processes for Chemicals. IA continues to assist with requests for review of Agency policies and procedures, and provide recommendations to improve internal controls. The attached Quarterly Status Report provides details.

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.

On December 8, 2021, 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 IAs 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 March 2022

Internal Audit Department Quarterly Status Report for March 2022

Projects Completed This Period

Project: Accounts Payable Operational and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management (E&CM)

Scope:

The objective of the audit was to evaluate the procure to pay processes related to the Professional/Consulting Services as administered by the E&CM unit (within the Engineering Department), and make recommendations to make the process more efficient to ensure payments are made timely. To-date, this is the third audit completed under the Accounts Payable (AP) Operational and Internal Control Audit.

Status: COMPLETE

The focus of this audit was to evaluate the Procure to Pay processes for Professional Services, specific to the Master Contracts procured by E&CM. For this audit, IA analyzed 6 Master Contracts and the timeliness of receiving and payments. The audit report is presented under a separate cover, and contains a table/matrix listing the 21 audit recommendations (7 for E&CM, 2 for Contracts and Procurement, and 12 for Accounting), flowchart and table describing the processes for each unit. IA found that efficiencies can be improved throughout the process. The observations and recommendations relate to the following areas:

- Routing of invoices for Professional Services
- Leveraging technologies to utilizes workflows for routing items
- Monitoring and oversight PO funding, budget blocks, etc.
- Leveraging the use of technology and reporting tools for better tracking, monitoring and follow-up
- Documenting Standard Operating Procedures (SOPs) and providing staff training

IA will provide quarterly updates on the proposed audit recommendations and show planned implementation actions with estimated corrective action dates.

Project: Accounts Payable Operational and Internal Control Audit:
Procure to Pay Processes for Agency Chemicals - Quarterly Progress Update

Scope:

The original audit evaluated the procure to pay processes for Agency chemicals, which provided 35 audit recommendations for the following Agency departments: Operations & Maintenance (O&M), Contracts and Procurement (CAP), and the Finance and Accounting (Accounting). IA is providing a quarterly update on the status of these 35 recommendations as shown in this chart:

Lead Department	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations
Operations & Maintenance	0	12	1	3	16
Contracts and Procurement	0	5	0	0	5
Accounting Unit	1	11	1	1	14
Total Recommendations	1	28	2	4	35

Status: Ongoing

The original audit report was issued on November 24, 2021, Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals and provided 35 audit recommendations.

The departments proposed action plans for the 35 recommendations that are documented and presented under a separate cover. IA will continue to provide quarterly progress reports until all audit recommendations have been addressed.

Internal Audit Department Quarterly Status Report for March 2022

Project: **Control Review of Inland Empire Regional Composting Authority's (IERCA)
FY 2020/21 Annual Financial Report**

Scope:

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

Status: **COMPLETE**

IA's review included the following procedures:

- Verified that the FY 2020 amounts/totals for all financial statements were transferred accurately from the FY 2020 published Annual Financial Report to the FY 2021 Annual Financial Report.
- 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 Annual Financial Report to ensure consistency and a professional presentation.

Comments and/or recommendations were provided to Accounting for their review and consideration. The Annual Financial Report is prepared by the Agency's Finance and Accounting Department. The final report was presented during the scheduled IERCA Board Meeting in February 2022, Mr. Nitin Patel of CLA presented the results of the audit to the Board.

Projects in Progress

Project: **Audit Technology: Workpaper and Data Analytics Program**

Scope:

IA is evaluating the costs/benefits of implementing automated audit tools to enhance audit processes. The Institute of Internal Auditors (IIA) Audit Standard 1220.A2 –provides guidance for exercising due professional care for internal auditors. IIA 1220.A2 states that internal auditors must consider the use of technology-based audit and other data analysis techniques.

The use of an automated working paper system as well as more use of data analytics would enhance the efficiency of the audit process. Currently, the IA Department is using Microsoft Office products. SharePoint is not geared toward auditing tools and creating audit workpapers. Some costs of implementation and maintenance would be necessary. IA is evaluating costs/benefits. Benefits include time saving, quicker more robust and larger scale analysis of transactions, sustainability, efficiencies, report production, dashboards, continuous monitoring, and storage.

Status: **Ongoing**

IA is currently evaluating information and researching. IA has held initial virtual meetings with Audit Board, Workiva and TeamMate, these are the leading software systems for audit workpapers. Additional meetings are scheduled to obtain additional information for further research and evaluation.

Any proposed plans will be discussed in detail with the GM and any affected Agency departments. IA will bring updates to the Audit Committee every quarter for review/discussion. Any proposed changes will be carefully evaluated, budgeted, and planned with sufficient advance time and notice.

Internal Audit Department Quarterly Status Report for March 2022

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. The meetings provide an opportunity for IA to gain an understanding of the Agency's priorities and identify potential risks that assists in audit planning. These meetings require approximately one hour each per month and do not compromise the independence of the auditors or the IA 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 March 2022

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 March 2022

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

Status: On-going

As of March 2022, there are 102 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.

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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
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for Chemicals	November 24, 2021	35	On going
Total Outstanding Audit Recommendations		133	

**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 March 2022, 133 recommendations remain outstanding:

- 35 relate to the Procure to Pay Processes for the Agency's Chemicals
- 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

Management Requests

Ongoing

Assist Agency Management with requests for analysis, evaluations, and verification of information, assist with the interpretation of policies and procedures, and/or provide review and feedback on new policies or procedures. Additionally, staff assists with interviews, document evaluations and discussions when asked and time permits. These services are provided according to the IAD Charter, the Annual Audit Plan, and best practices. The management request projects are short-term projects, typically lasting no more than 75 hours where IA determines it has the necessary staff, skills, and resources to provide the requested assistance without having to delay/defer scheduled audits and priority projects. The scope of each review is agreed

Internal Audit Department Quarterly Status Report for March 2022

upon between the department manager requesting the evaluation, review, analysis or assistance, the Manager of IA and when deemed appropriate by the Leadership Team and department Managers.

Special Projects

Ongoing

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.

In January 2022, a full-time Senior Internal Auditor started with the Internal Audit Department at the Agency. The Senior Internal Auditor has an extensive background auditing governmental agencies.

During this quarter, IA staff attended a full-day virtual seminar called *Are you Ready for What's Next? Ethics, Fraud, Cybersecurity, and Market Outlook for Audit Professionals* hosted by the IIA Inland Empire Chapter and the Agency's Cybersecurity Awareness Training in January 2022. In February 2022, one IA staff member attended the *Leadership Development for Water Sector Utilities Course* offered through EUCI and all auditors attended a half-day virtual Government Audit seminar on Government Audit trends. All training hours met the requirements of Continuing Professional Education (CPE) and earned CPE credits.

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 Masters degree in Public Administration (MPA). Both Senior Auditors are Certified Internal Auditors. The Manager of IA and Senior Auditor are Certified Government Audit Professionals.

The Internal Audit Department is staffed as follows:

- 1 Full-time Manager of Internal Audit
- 2 Full-time Senior Internal Auditors

Future Audit Committee Meetings

- 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