Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

MONDAY, JUNE 6, 2022
9:00 A.M.

AGENCY HEADQUARTERS
BOARD ROOM
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91708
VIEW THE MEETING LIVE ONLINE AT IEUA.ORG
TELEPHONE ACCESS: (415) 856-9169 / Conf Code: 191 714 28#

PURSUANT TO AB361 AND RESOLUTION NO. 2022-5-6, ADOPTED BY THE IEUA BOARD OF DIRECTORS ON MAY 18 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.**

*A Municipal Water District

1. **ACTION ITEMS**

   A. **MINUTES**
   Approve Minutes of the March 7, 2022 Audit Committee meeting.

   B. **FY 2022/23 ANNUAL AUDIT PLAN**
   Staff recommends that the Committee/Board:

   1. Approve the FY 2022/23 Annual Audit Plan; and

   2. Direct the Manager of Internal Audit to implement the FY 2022/23 Annual Audit Plan.

2. **INFORMATION ITEMS**

   A. **FY 2021/22 FINANCIAL AUDIT ENGAGEMENT COMMUNICATIONS (WRITTEN/POWERPOINT)**

   B. **ACCOUNTS PAYABLE OPERATIONAL AND INTERNAL CONTROL AUDIT REPORT – REVIEW OF PROCURE TO PAY PROCESSES FOR PROFESSIONAL SERVICES – PLANNING & RESOURCES (WRITTEN/POWERPOINT)**

   C. **INTERIM AUDIT REPORT: ACCOUNTS PAYABLE OPERATIONAL AND INTERNAL CONTROL AUDIT REPORT – REVIEW OF PROCURE TO PAY PROCESSES FOR MATERIALS AND SUPPLIES (WRITTEN/POWERPOINT)**

   D. **PROGRESS UPDATE FOR ALL PROCURE TO PAY AUDIT RECOMMENDATIONS (WRITTEN/POWERPOINT)**

   E. **REPORT OF OPEN AUDIT RECOMMENDATIONS (WRITTEN/POWERPOINT)**

   F. **INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR JUNE 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*
AGENCY HEADQUARTERS, CHINO, CA**

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

COMMITTEE MEMBERS PRESENT via Video/Teleconference
  Paul Hofer, Chair
  Steven J. Elie, Director

STAFF PRESENT
  Shivaji Deshmukh, P.E., General Manager
  Laura Mantilla, Executive Assistant
  Wilson To, Technology Specialist II

STAFF PRESENT via Video/Teleconference
  Christiana Daisy, P.E., Deputy General Manager
  Javier Chagoyen-Lazaro, Acting Assistant General Manager
  Deborah Berry, Controller
  Denise Garzaro, Board Secretary/Office Manager
  Don Hamlett, Director of Information Technology
  Jennifer Hy-Luk, Administrative Assistant II
  Randy Lee, Director of Operations and Maintenance
  Scott Lening, Manager of Operations
  Kenneth Monfore, Manager of Asset Management
  Salvador Rodriguez, Senior Internal Auditor
  Jeanina Romero, Executive Assistant
  Sapna Nangia, Senior Internal Auditor
  Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT via Video/Teleconference
  Travis Hickey, Audit Committee Advisor

Committee Chair Paul Hofer 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. ACTION ITEM
The Committee:

 ◆ Approved the minutes of the December 6, 2021 Audit Committee meeting.

2A – 2C. 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 Professional Services – Engineering & Construction Management
- Quarterly Update for Audit Recommendation Related to Review of Procure to Pay Processes for Chemicals
- Internal Audit Department Quarterly Status Report for March 2022

3. AUDIT COMMITTEE ADVISOR COMMENTS
Audit Committee Advisor Travis Hickey stated that he attended the annual conference for municipal finance officers hosted by the California Society of Municipal Finance Officers. He commented that several sessions were related to technology risks in particular agency ransomware attacks. He stated that he will contact Ms. Velarde about addressing cybersecurity risks on the Annual Audit Plan for consideration.

General Manager Shivaji Deshmukh stated that staff will provide a cybersecurity update to the Board in the future.

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 Hofer adjourned the meeting at 9:54 a.m.

Respectfully submitted,

Laura Mantilla
Executive Assistant

*A Municipal Water District

APPROVED: JUNE 6, 2022

ACTION

ITEM

1B

![Inland Empire Utilities Agency - A Municipal Water District]

Date: June 15, 2022

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

Committee: Audit   *06/06/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: FY 2022/23 Annual Audit Plan

Executive Summary:

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

The Internal Audit Department Charter and the Institute of Internal Auditors (IIA) audit standards require that periodic risk assessments be performed to ensure information captured is relevant, timely, and aligned with the Agency's changing environment, goals, and objectives. IA performs the required risk assessment, prepares the Annual Audit Plan, and submits quarterly status reports and amendments, as required. The main audit projects proposed for FY 2022/23 include: Accounts Payable Operational and Internal Control Audit, specifically the completion of additional Procure to Pay audits, Information Technology Physical Inventory Audit and follow-up reviews to evaluate the implementation status of prior recommendations provided. Additionally, IA is available to assist with questions related to Agency policies, processes, compliance, and efficiencies and to participate in various meetings, committees and discussions.

Staff's Recommendation:

1. Approve the FY 2022/23 Annual Audit Plan; and

2. Direct the Manager of Internal Audit to implement the FY 2022/23 Annual Audit Plan.

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

Account/Project Name:

Fiscal Impact (explain if not budgeted):

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

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

                                                      -     -   -

Prior Board Action:

On December 8, 2021, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Department Charters. Both Charters require the Manager of IA to annually complete and present the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - FY 2022/23 Internal Audit Department Annual Audit Plan
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Fiscal Year 2022-2023

Internal Audit Department

Annual Audit Plan

Submitted by:
Teresa V. Velarde
Manager of Internal Audit
June 6, 2022

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

Purpose of the Internal Audit Department

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

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

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

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

> ## *Mission Statement*
> *The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve accountability and integrity, improve operations, and instill confidence among its employees and the citizens it serves by:*
>
> - *Promoting a sound control environment.*
> - *Providing independent, objective assurance, and consulting services.*
> - *Improving Agency risk management, control, and governance.*
> - *Promoting the Agency's vision and mission with a high degree of professionalism.*

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

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

Integrity
The Internal Audit Department staff are required to maintain the highest degree of integrity in handling information and conducting their audit work.

Professionalism
The IA Department will always perform its work with a high degree of professionalism and participate in continuing professional development to stay informed of new audit trends.

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

Purpose of the Annual Audit Plan

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

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

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

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

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

Annual Audit Plan Methodology

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

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

For the Fiscal Year 2022/2023 Annual Audit Plan, the audits were selected based on all things considered as discussed above, the results of audits completed, risks identified, discussions with key individuals and auditor judgement. Significant deviations and changes to the Audit Plan will be communicated to the Audit Committee through an Amended Audit Plan and progress information is provided through Quarterly Status Reports presented to the Audit Committee.

Fiscal Year 2022/23 Annual Audit Plan

Accounts Payable – Operational and Internal Control Audit
This is a large, comprehensive operational audit project that is being completed in various phases, evaluating different Procure to Pay (P2P) processes throughout the Agency with the goal of providing recommendations to improve the timeliness of vendor payments and efficiencies in the processes. To-date, IA has completed four (4) P2P Audits and one (1) P2P audit in progress. This operational audit evaluates various areas of the Accounts Payable activities, including:

       Compliance with Agency policies and department operating procedures
       Internal controls in place with regards to accounts payable activities
       Payments are issued timely and only for properly procured and approved expenditures
       Timeliness and accuracy of invoice receipt, approval, and payment processes
       Evaluate controls related to the Vendor Master List
       Evaluate implementation status of outstanding recommendations from prior audits
       Make recommendations for efficiencies in all respects of the procure to pay cycle

Additional P2P evaluations planned/proposed:
       Completion of P2P – Materials & Supplies
       P2P – Laboratory Equipment and Services
       P2P – Pay Estimates
       P2P – Other Professional Services

Information Systems Physical Inventory and Internal Controls Audit
Evaluate compliance with policies and procedures, accountability, and inventory controls of equipment purchased, assigned, and stored, disposal processes and controls, financial transactions, and supporting documents of purchases to ensure compliance with all procurement policies. This project was planned in FY 2021/22; however, the P2P audits took greater priority and this project was deferred.

Follow-up Reviews to evaluate the status of outstanding recommendations
As required by the Charters and audit standards, IA will follow up on the status of outstanding recommendations to determine if corrective actions or alternate controls were implemented. As of June 2022, 126 recommendations remain outstanding as follows:

       *28 relate to Procure to Pay audits; these are currently followed up and reported on quarterly basis
       *31 relate to the renegotiation of the Regional Contract,
       *20 relate to Agency policies updates, HR is working with a consultant to evaluate
       *10 related to audits completed in the previous 12 months and need additional time for implementation
       *37 recommendations are eligible for follow-up evaluation

Internal Audit Department – Audit Software Tools
IA is evaluating the use of, feasibility, tools, efficiencies and overall benefits and considerations of audit software tools to improve audit efficiencies, reports, audit techniques, and comply with audit workpaper retention and support requirements.

On-Going Audit Projects

- ❖ IA Department Quality Assurance and Improvement Program

- ❖ Assist with the annual review of the Annual Comprehensive Financial Report (ACFR) Review, the Single Audit, and complete the required filings to the regulatory agencies

- ❖ Review and update the IA Department and the Committee Charters

- ❖ Continue to assist with SAP internal control inquiries

- ❖ Continue to participate on the Safety Committee

- ❖ Continue to participate on the Technology/Cybersecurity Committee

- ❖ Continue to participate on the Asset Management Steering Committee

- ❖ Continue to participate on the Strike Team and the Strike Team PM meetings

- ❖ Provide needed support related to audit topics, internal controls, Agency policies and procedures and compliance items as requested by Agency personnel

- ❖ Further utilize capabilities of SAP to enhance IA functions

- ❖ On-going required administrative reporting, such as budget, goals/objectives, staff appraisals, and other administrative items

- ❖ Conduct special requests and/or unforeseen projects

- ❖ Provide recommendations to strengthen/streamline policies and procedures

- ❖ Update IA Annual Audit Plan and corresponding Risk Assessment

- ❖ Continue to work with auditees to resolve outstanding recommendations

- ❖ Assist with requests for internal controls questions, discussions, and evaluations

- ❖ Continue to review, update, and document IA Policies and Procedures

- ❖ Continuous Professional Development and education of all auditors

- ❖ Plan, prepare, and coordinate Audit Committee Meetings

- ❖ Utilize the IA site on AIM as an Agency-wide communication tool

- ❖ Unannounced Petty Cash Audits

- ❖ Provide "audit approach" presentations to requesting departments

- ❖ Continue to actively participate in professional associations

- ❖ Promote IA as an independent, objective, advisory Agency service

Outstanding Recommendations

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

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*
Accounts Payable Follow-Up (*Deferred Recommendations related to Agency Policies*)	August 29, 2013	2
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7
Water Use Efficiency Programs Audit	June 5, 2017	6
Contracts and Procurement Follow-Up Audit	August 30, 2017	1
Payroll Operations Audit	August 30, 2017	5
Procurement Card Audit	March 1, 2018	7
Wire Transfers Audit	March 1, 2018	4
Inter-fund Transactions Audit	August 30, 2018	1
Accounts Payable Follow-Up Audit	May 30, 2019	4
Voyager Fuel Card Audit	May 30, 2019	4
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7
Recycled Water Revenues Audit	May 28, 2020	3
Human Resources: Workload Indicators Review	May 29, 2020	2
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for Chemicals	November 24, 2021	13
Accounts Payable Operational and Internal Control Audit Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management	February 24, 2022	15
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
Total Outstanding Audit Recommendations		**126**

*See the Report of Open Recommendations under separate cover.

As of June 2022, 126 recommendations remain outstanding, only 37 of the 126 recommendations noted above are eligible for follow-up evaluation as described below:

- 28 relate to the Procure to Pay Audits which are followed up on quarterly,
- 31 relate to the renegotiation of the Regional Contract,
- 20 relate to required updates to Agency policies, the Human Resources Department is working with a consultant to evaluate all Agency policies and changes are in progress, and
- 47 recommendations are eligible for follow up evaluation.

Long Range Audit Planning – Additional Audit Areas

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

Accounts Payable Audit – Review of Agency Credit Cards Select a specific vendor or types of payments, for example travel credit cards, and gas credit cards to ensure that transactions do not bypass the required procurement processes. • Review financial transactions and supporting documentation • Evaluate internal controls related to accounts payable functions • Compliance with Agency policies and department procedures
Electronic Payment Transactions and Disbursements Audit Select specific vendors or types of transactions where electronic payments were issued, and evaluate: Financial transactions have adequate supporting documentation for the disbursement Compliance with policies and procedures Payments are accurately entered in the accounting system and paid timely Internal controls for electronic disbursements made.
Capital Projects The external financial auditors, have in the past, noted deficiencies with the process for closing completed capital projects. Projects were left open long after the project had been completed, therefore, impacting the accounting value of capital assets. This audit would focus on evaluating when open capital projects have been completed and examining when the construction in progress balances are closed to capital assets.
Various or Other Agreements Evaluate the variety of special and/or other types of agreements the Agency may have with other agencies or vendors that may or may not be formalized under an official Agency contract. This audit would also evaluate whether the special agreements provide preferential treatment or significant discounts/credits when compared to similar agencies for similar services.
Cybersecurity Cybersecurity risks are on the rise. A review of this area would evaluate the current internal controls and control safeguards in place to protect the Agency and minimize/eliminate risks to Agency information, employee information, assets, and other vulnerabilities.
Payroll Operations Audit Payroll Operations Audits were performed in 2010, 2012 and again in 2017. This is a sensitive area that should be continuously monitored and evaluated. This review would be a new audit focusing on any current changes in payroll requirements or Agency policy changes as well as test to ensure employee requested changes took effect. This audit would also focus on any outstanding recommendations that resulted from prior audits.

Large/Heavy Equipment Inventory and Accountability

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

Asset Management

An audit of this area would evaluate the accountability, controls and policies in place to ensure assets are properly recorded in the Agency's financial records. Additionally, to determine if periodic inventories or other valuation processes are performed to validate the amount of assets reported in accounting records.

Operations Operational Evaluations

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

Data Analytics

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

Fleetistic Use, Vehicle Maintenance and Maintenance Vendors Controls

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

Personal Computer Loan Program and Policy Compliance

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

Other Additional Audit Areas

Additional audit areas are considered and included, when warranted and/or requested and the risk assessed warrants an audit evaluation and are planned and scheduled through the Board-approved Annual Audit Plan.

Audit Planning Strategy

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

The IIA IPPF defines Risk as follows:

- **Risk** – The possibility of an event occurring that will have an **impact on the achievement of objectives**. Risk is measured in terms of impact and likelihood and.

- **Residual Risks** – As the risk remaining **after management acts to reduce the impact** and likelihood of an adverse event, including control activities in response to a risk.

The risk assessment is a general assessment performed using best practice guidance, professional judgment, and consideration for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies. In performing the Risk Assessment for this FY 2022/23 Annual Audit Plan, the following were considered:

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

Audit Universe

The IIA PPF defines "Audit Universe" as all possible auditable areas. For the purposes of this Annual Audit Plan, the universe includes all Agency Departments, operations, contracts, transactions, policies, processes, and activities. Audit risk is evaluated in any of these areas and audits are selected based on assessed risk and level of priority keeping the achievement of Agency goals and objectives as the key consideration.

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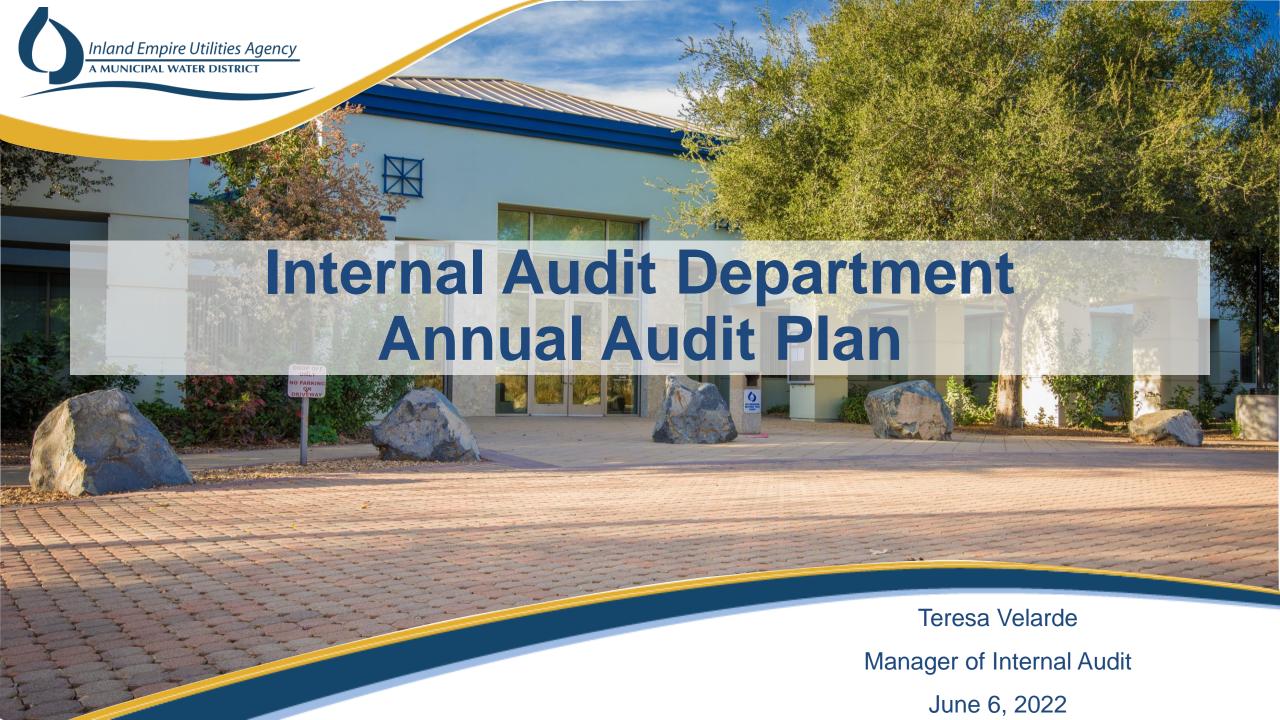
The Institute of Internal Auditing (IIA), International Professional Practices Framework (IPPF) defines a Quality Assurance and Improvement Program: "A quality assurance and improvement Program is designed to enable an evaluation of internal audit activity's conformance with the Definition of Internal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

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

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

As part of IA's commitment for continued quality audit services, beginning FY 2022/23, IAD will perform internal assessments of the IAD. An external assessment by an independent reviewer is planned for FY 2023/24. Results will be presented and discussed at the regularly scheduled Audit Committee meetings.

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

Internal Audit Department Annual Audit Plan

Teresa Velarde

Manager of Internal Audit

June 6, 2022

Fiscal Year 2022/23 Annual Audit Plan
Planning Considerations

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

Fiscal Year 2022/23 Annual Audit Plan Proposed Projects

Accounts Payable – Operational and Internal Control Audit

Additional P2P evaluations planned/proposed:
- Completion of P2P – Materials & Supplies
- P2P – Laboratory Equipment and Services
- P2P – Pay Estimates
- P2P – Other Professional Services

Information Systems Physical Inventory and Internal Controls Audit

Internal Audit Department – Audit Software Tools

Follow-up Reviews to evaluate the status of outstanding recommendations

Fiscal Year 2022/23 Annual Audit Plan
Outstanding Audit Recommendations

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*
Accounts Payable Follow-Up (*Deferred Recommendations related to Agency Policies*)	August 29, 2013	2
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7
Water Use Efficiency Programs Audit	June 5, 2017	6
Contracts and Procurement Follow-Up Audit	August 30, 2017	1
Payroll Operations Audit	August 30, 2017	5
Procurement Card Audit	March 1, 2018	7
Wire Transfers Audit	March 1, 2018	4
Inter-fund Transactions Audit	August 30, 2018	1
Accounts Payable Follow-Up Audit	May 30, 2019	4
Voyager Fuel Card Audit	May 30, 2019	4
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7
Recycled Water Revenues Audit	May 28, 2020	3
Human Resources: Workload Indicators Review	May 29, 2020	2
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for Chemicals	November 24, 2021	13
Accounts Payable Operational and Internal Control Audit Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management	February 24, 2022	15
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
Total Outstanding Audit Recommendations		**126**

- 28 relate to the P2P Audits

- 31 relate to the renegotiation of the Regional Contract

- 20 relate to required updates to Agency policies

- 47 are eligible for follow up review (5 are ready to be closed)

4

- ❖ IA Department Quality Assurance and Improvement Program
- ❖ Assist with the annual review of the Annual Comprehensive Financial Report (ACFR) Review, the Single Audit, and complete the required filings to the regulatory agencies
- ❖ Review and update the IA Department and the Committee Charters
- ❖ Continue to assist with SAP internal control inquiries
- ❖ Continue to participate on the Safety Committee
- ❖ Continue to participate on the Technology/Cybersecurity Committee
- ❖ Continue to participate on the Asset Management Steering Committee
- ❖ Continue to participate on the Strike Team and the Strike Team PM meetings
- ❖ Provide needed support related to audit topics, internal controls, Agency policies and procedures and compliance items as requested by Agency personnel
- ❖ Further utilize capabilities of SAP to enhance IA functions

Fiscal Year 2022/23 Annual Audit Plan
On-Going Audit Projects

- ❖ On-going required administrative reporting, such as budget, goals/objectives, staff appraisals, and other administrative items
- ❖ Conduct special requests and/or unforeseen projects
- ❖ Provide recommendations to strengthen/streamline policies and procedures
- ❖ Update IA Annual Audit Plan and corresponding Risk Assessment
- ❖ Continue to work with auditees to resolve outstanding recommendations
- ❖ Assist with requests for internal controls questions, discussions, and evaluations
- ❖ Continue to review, update, and document IA Policies and Procedures
- ❖ Continuous Professional Development and education of all auditors
- ❖ Plan, prepare, and coordinate Audit Committee Meetings
- ❖ Utilize the IA site on AIM as an Agency-wide communication tool
- ❖ Unannounced Petty Cash Audits
- ❖ Provide "audit approach" presentations to requesting departments
- ❖ Continue to actively participate in professional associations
- ❖ Promote IA as an independent, objective, advisory Agency service

Accounts Payable Audit – Review of Agency Credit Cards

Select a specific vendor or types of payments, for example travel credit cards, and gas credit cards to ensure that transactions do not bypass the required procurement processes.
- Review financial transactions and supporting documentation
- Evaluate internal controls related to accounts payable functions
- Compliance with Agency policies and department procedures

Electronic Payment Transactions and Disbursements Audit

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

Financial transactions have adequate supporting documentation for the disbursement
Compliance with policies and procedures
Payments are accurately entered in the accounting system and paid timely
Internal controls for electronic disbursements made.

Capital Projects

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

Various or Other Agreements

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

Cybersecurity

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

Payroll Operations Audit

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

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

Asset Management
An audit of this area would evaluate the accountability, controls and policies in place to ensure assets are properly recorded in the Agency's financial records. Additionally, to determine if periodic inventories or other valuation processes are performed to validate the amount of assets reported in accounting records.

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

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

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

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

Other Additional Audit Areas
Additional audit areas are considered and included, when warranted and/or requested and the risk assessed warrants an audit evaluation and are planned and scheduled through the Board-approved Annual Audit Plan.

Fiscal Year 2022/23 Annual Audit Plan

Staff recommends the Board:

1. Approve the FY 2022/23 Annual Audit Plan; and

2. Direct the Manager of Internal Audit to implement the FY 2022/23 Annual Audit Plan.

> ### *Mission Statement*
> *The Internal Audit Department seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Department will help the Agency achieve accountability and integrity, improve operations and instill confidence among its employees and the citizens it serves by:*
>
> - *Promoting a sound control environment.*
> - *Providing independent, objective assurance and consulting services.*
> - *Improving Agency risk management, control and governance.*
> - *Promoting the Agency's vision and mission with a high degree of professionalism.*

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

INFORMATION
ITEM
2A

Date: June 15, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

06/06/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Fiscal Year 2021/22 Financial Audit Engagement Communications

Executive Summary:

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

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

Attached, are the Engagement Letters in Draft form which describe the terms and objectives of the financial audit services with CLA for the Fiscal Year ending June 30, 2022. The final Engagement Letters will be forthcoming before interim audit work begins. During the Audit Committee meeting, Mr. Nitin Patel, CPA, Principal with CLA will provide a presentation about the audit scope and approach, as well as the required communications.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

 N/A

Fiscal Impact (explain if not budgeted):

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

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

                                          -          -   -

Prior Board Action:

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

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Engagement Letter - CLA (Draft)
Attachment 2 - AUP GANN Letter - CLA (Draft)
Attachment 3 - CLA PowerPoint

[Date]

Mr. Shivaji Deshmukh
General Manager
Inland Empire Regional Composting Authority
C/O Inland Empire Utilities Agency
6075 Kimball Avenue
Chino, CA 91708

We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the audit and nonaudit services CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") will provide for Inland Empire Utilities Agency and Chino Basin Regional Financing Authority ("you," "your," or "the entity") for the year ending June 30, 2022.

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

Scope of audit services

We will audit the financial statements of each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Inland Empire Utilities Agency, and the financial statements of the Chino Basin Regional Financing Authority as of and for the year ending June 30, 2022, and the related notes to the financial statements.

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

1. Management's discussion and analysis.

2. GASB-required supplementary pension and OPEB schedules.

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

1. Schedule of expenditures of federal awards

2. Combining and individual fund financial statements and schedules

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

1. Introductory Section

2. Statistical Section

Nonaudit services

We will also provide the following nonaudit services:

- Preparation of your financial statements for Chino Basin Regional Financing Authority only, schedule of expenditures of federal awards and related notes.

- Prepare the Data Collection Form.

Audit objectives

The objectives of our audit are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions about whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

The objectives of our audit also include:

- Reporting on internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Reporting on internal control over compliance related to major programs and expressing an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Uniform Guidance.

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

We will issue written reports upon completion of our audit of your financial statements and compliance with requirements applicable to major programs. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph to our auditors' report, or if necessary, withdraw from the engagement. If our opinions on the financial statements or the single audit compliance opinion is other than unmodified, we will discuss the reasons with you in advance. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements or material noncompliance caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming opinions on the financial statements or an opinion on compliance, we retain the right to take any course of action permitted by professional standards, including declining to express opinions or issue reports, or withdrawing from the engagement.

Auditor responsibilities, procedures, and limitations

We will conduct our audit in accordance with U.S. GAAS, the standards for financial audits contained in *Government Auditing Standards*, and the Uniform Guidance. Those standards require that we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. As part of our audit, we will:

- Identify and assess the risks of material misstatement of the financial statements and material noncompliance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement or a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the entity's internal control. However, we will communicate to you in writing any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the basic

financial statements, including the amounts and disclosures, and whether the basic financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Although our audit planning has not been concluded and modifications may be made, we have identified the following significant risk(s) of material misstatement as part of our audit planning:

- Management override of controls.

- Revenue recognition.

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

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

Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting fraud or errors that are material to the financial statements and to preventing and detecting misstatements resulting from noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with the direct and material compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those

controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

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

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

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

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

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

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

Management responsibilities

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

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

Management's responsibilities include the selection and application of accounting principles; recording and reflecting all transactions in the financial statements; determining the reasonableness of significant accounting estimates included in the financial statements; adjusting the financial statements to correct material misstatements; and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for 12 months beyond the financial statement date.

Management is responsible for compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs. Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

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

You are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud; assessing the risk that the financial statements may be materially misstated as a result of fraud; and for informing us about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for implementing systems designed to achieve compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; identifying and ensuring that the entity complies with applicable laws, regulations, contracts, and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; and informing us of all instances of identified or suspected noncompliance whose effects on the financial statements should be considered.

You are responsible for taking timely and appropriate steps to remedy any fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we may report. Additionally, as required by

the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings; and to follow up and take prompt corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review during final fieldwork.

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

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

Management is responsible for the preparation and fair presentation of other supplementary information in accordance with U.S. GAAP. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. You agree to provide us written representations related to the presentation of the supplementary information.

Management is responsible for providing us with a written confirmation concerning representations made by you and your staff to us in connection with the audit and the presentation of the basic financial statements and RSI. During our engagement, we will request information and explanations from you regarding, among other matters, the entity's activities, internal control, future plans, specific transactions, and accounting systems and procedures. The procedures we will perform during our engagement and the conclusions we reach as a basis for

our report will be heavily influenced by the representations that we receive in the representation letter and otherwise from you. Accordingly, inaccurate, incomplete, or false representations could cause us to expend unnecessary effort or could cause a material fraud or error to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the entity's financial statements that we may fail to detect as a result of misrepresentations made to us by you.

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

Responsibilities and limitations related to nonaudit services

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

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

- We will prepare a draft of your financial statements for Chino Basin Regional Financing Authority only, schedule of expenditures of federal awards and related notes, in conformity with U.S. GAAP and the Uniform Guidance based on information provided by you. Since the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and related notes is your responsibility, you will be required to acknowledge in the representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes, prior to their issuance and have accepted responsibility for them. You have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements, schedule of expenditures of federal awards, and related notes.

- We will prepare the Data Collection Form. Management is responsible to review for completeness and accuracy before submitting to the Federal Audit Clearing House.

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

Use of financial statements

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

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

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

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

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

Engagement administration and other matters

We expect to begin our interim audit in June 2022 and our final audit in October 2022. We expect to issue our reports in December 2022.

We understand that your employees will prepare all confirmations, account analyses, and audit schedules we request and will locate any documents or invoices selected by us for testing. A list of information we expect to need for our audit and the dates required will be provided in a separate communication.

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

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

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

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

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

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

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

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

Mediation

Any disagreement, controversy, or claim ("Dispute") that may arise out of any aspect of our services or relationship with you, including this engagement, shall be submitted to non-binding mediation by written notice

("Mediation Notice") to the other party. In mediation, we will work with you to resolve any differences voluntarily with the aid of an impartial mediator.

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

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

Time limitation

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

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

Fees

Our not to exceed fee for the year ending June 30, 2022, is set forth below, which is inclusive of a five percent technology and client support fee. These fees are based on anticipated cooperation from your personnel and their assistance with preparing confirmations and requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. If unexpected circumstances require significant additional time, we will advise you before undertaking work that would require a substantial increase in the fee and expense estimates. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our reports. You will be obligated to compensate us for all time expended and related fees and to reimburse us for all out-of-pocket expenditures through the date of termination.

Service	Amount
Inland Empire Utilities Agency Financial Audit	$ 32,400
Inland Empire Utilities Agency Single Audit	$ 6,000
Chino Basin Regional Financing Authority Financial Audit	$ 4,400
Total	**$ 42,400**

Unanticipated services

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

Changes in engagement timing and assistance by your personnel

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

- Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents)

- Rescheduling our fieldwork

- Schedule disruption caused by litigation, financial challenges (going concern), loan covenants (waivers), etc.

- Identifying a significant number of proposed audit adjustments

- Schedules prepared by your personnel that do not reconcile to the general ledger

- Numerous revisions to information and schedules provided by your personnel

- Restating financial statements for accounting errors in the prior year

- Lack of availability of entity personnel during audit fieldwork

Other fees

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

Finance charges and collection expenses

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

Consent

Consent to use information for benchmarking analysis

In an effort to better serve the needs of our clients, we develop a variety of benchmark, performance indicator, and predictive analysis reports, using anonymized client data obtained from our audit, tax, and other engagements. Business and financial information that you provide to us may be combined with information from other clients and included within the aggregated data that we use in these reports. While some of these analytical reports will be published and released publicly, please be assured that the separate information that we obtain from you will remain confidential, as required by the AICPA Code of Professional Conduct.

Subcontractors

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

Agreement

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. This letter constitutes the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA. If you have any questions, please let us know. Please sign, date, and return this letter to us to indicate your acknowledgment and understanding of, and agreement with, the arrangements for our audit of your financial statements including the terms of our engagement and the parties' respective responsibilities.

Sincerely,

CliftonLarsonAllen LLP

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

Response:

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

Authorized management signature: _____

Title: _____

Date: _____

[Date]

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

We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the agreed-upon procedures engagement CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") will provide for Inland Empire Utilities Agency ("you," "your," or "the entity") for the year ending June 30, 2023.

Nitin Patel is responsible for the performance of the agreed-upon procedures engagement.

Scope, objective, and responsibilities

We will apply the agreed-upon procedures which Inland Empire Utilities Agency and the League of California Cities (as presented in the League Publication entitled "Article XIII-B Appropriation Limit Uniform Guidelines") has specified and agreed to, listed in the attached schedule, to the Appropriations Limit Worksheet No. 6 of Inland Empire Utilities Agency for the year ending June 30, 2023. Inland Empire Utilities Agency is responsible for the Appropriation Limit Worksheet No. 6.

Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Inland Empire Utilities Agency agrees to and acknowledges the procedures performed or to be performed are appropriate for the intended purpose of the requirements of Section 1.5 of Article XIII-B of the California Constitution. The intended users of the agreed-upon procedures report are the Board of Directors and management of the Inland Empire Utilities Agency. Intended users in addition to Inland Empire Utilities Agency may be requested to agree to the procedures and acknowledge that the procedures performed are appropriate for the intended purpose. Consequently, we make no representation regarding the appropriateness of the procedures enumerated in the attached schedule either for the purpose for which this report has been requested or for any other purpose. The intended users assume the risk that such procedures might be inappropriate for the intended purpose and the risk that they might misunderstand or otherwise inappropriately use findings properly reported by CLA.

Our responsibility is to perform the specified procedures and report the findings in accordance with the attestation standards. Because the agreed-upon procedures listed in the attached schedule do not constitute an examination, or review, we will not express an opinion or conclusion on the Appropriation Limit Worksheet No. 6. In addition, we have no obligation to perform any procedures beyond those listed in the attached schedule.

At the conclusion of the engagement, you agree to provide a written representation letter that includes your agreement and acknowledgement that the procedures performed are appropriate for the intended purpose of the engagement and, if applicable, that you have obtained from necessary other parties their agreement to the procedures and acknowledgement that the procedures performed are appropriate for their purposes.

We will issue a written report upon completion of our engagement that lists the procedures performed and our findings. This report is intended solely for the information and use of the Board of Directors and management of Inland Empire Utilities Agency, and should not be used by anyone other than the specified parties. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report and withdraw from this engagement. Our report will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

An agreed-upon procedures engagement is not designed to detect instances of fraud or noncompliance with laws or regulations; however, we will communicate to you any known and suspected fraud and noncompliance with laws or regulations affecting the Appropriations Limit Worksheet No. 6 that come to our attention, unless they are clearly inconsequential. In addition, if, in connection with this engagement, matters come to our attention that contradict the Appropriations Limit Worksheet No. 6, we will disclose those matters in our report. Such disclosures, if any, may not necessarily include all matters that might have come to our attention had we performed additional procedures or an examination or review.

Management is responsible for providing us with (1) access to all information of which you are aware that is relevant to the Appropriations Limit Worksheet No. 6 and the agreed-upon procedures, such as records, documentation, and other matters, and for the accuracy and completeness of that information; (2) additional information that we may request for the purpose of performing the agreed-upon procedures; and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence relating to performing the procedures. You agree to inform us of events occurring or facts discovered subsequent to the date of the Appropriations Limit Worksheet No. 6 that may affect the Appropriations Limit Worksheet No. 6.

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

We plan to begin our procedures on approximately July 2022 and, unless unforeseeable problems are encountered, the engagement should be completed by August 2022.

Engagement administration and other matters

The workpapers supporting the services we perform are the sole and exclusive property of CLA and constitute confidential and proprietary information. We do not provide access to our workpapers to you or anyone else in the normal course of business. Unless required by law or regulation to the contrary, we retain our workpapers in accordance with our record retention policy that typically provides for a retention period of seven years.

Pursuant to authority given by law or regulation, we may be requested to make certain workpapers available to the California State Controller's Office for their regulatory oversight purposes. We will notify you of any such request. Access to the requested workpapers will be provided to the regulators under the supervision of CLA personnel and at a location designated by our firm. Furthermore, upon request, we may provide copies of

selected workpapers to such regulators. The regulators may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

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

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

Mediation

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

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

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

Time limitation

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

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

Fees

Our not to exceed fee for the year ending June 30, 2023, is included in the audit fee for Inland Empire Utilities Agency. This fee is based on anticipated cooperation from your personnel and their assistance with preparing confirmations and requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. If unexpected circumstances require significant additional

time, we will advise you before undertaking work that would require a substantial increase in the fee and expense estimate. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our report. You will be obligated to compensate us for all time expended and related fees and to reimburse us for all out-of-pocket expenditures through the date of termination.

Other fees

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

Finance charges and collection expenses

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

Agreement

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. This letter constitutes the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign, date, and return the copy to us.

Sincerely,

CliftonLarsonAllen LLP

Nitin Patel, CPA
Principal
714-795-5387
Nitin.patel@CLAconnect.com

Enclosure

Response:

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

Authorized Signature:

Title:

Date:

SCHEDULE A

SCHEDULE OF PROCEDURES TO BE PERFORMED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

The procedures performed and our findings were as follows:

1. We will obtain the completed Worksheet No. 6 for the year ended June 30, 2023, and compare the limit and annual adjustment factors included in that worksheet to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We will also compare the population and inflation options included in the aforementioned worksheet to those that were selected by a recorded vote of the Board of Directors.

2. For the Appropriations Limit Worksheet No. 6, we will add last year's limit to the total adjustments, and compare the resulting amount to this year's limit. We will also recalculate the adjustment factor and the adjustment for inflation and population, and compare the results to the amounts on Worksheet No. 6.

3. We will compare the prior year appropriations limit presented in the Appropriations Limit Worksheet No. 6 to the prior year appropriations limit adopted by the Board of Directors for the prior year.

Inland Empire Utilities Agency
Planning Presentation to
Audit Committee

Fiscal Year 2021-2022

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Outline

- Scope of services for year ending June 30, 2022
- GASB/Audit Standards
- Auditor' responsibilities
- Planned scope and timing

Scope of Service

- Audit of the annual financial statements for the Inland Empire Utilities Agency and Chino Basin Regional Financing Authority for the year ending June 30, 2022, in accordance with Generally Accepted (US) and Governmental Auditing Standards

- Audit of federal grant expenditures under the Uniform Guidance

- Agreed-Upon-Procedures related to the Agency's calculation of the GANN limit

GASB/Audit Standards

- GASB 87 – Leases

- SAS 134 - Changes to the Independent Auditors' Report
    - Opinions
    - Basis for Opinions
    - Responsibilities of Management for the Financial Statements
    - Auditor's Responsibilities for the Audit of the Financial Statements
        - Additional disclosures

Auditor's Responsibilities

- Forming and expressing opinions on whether the financial statements prepared by management are fairly presented in all material respects in conformity with generally accepted accounting principles

- Planning and performing the audit to obtain reasonable assurance whether the financial statements are free of material misstatements

Auditor's Responsibilities

- Examining in accordance with the Uniform Guidance about the Agency's compliance applicable to each of the major federal program for the purpose of expressing an opinion on the Agency's compliance with those requirements

- Communicating significant matters related to the financial statement audit that in our judgement are relevant to your responsibilities in overseeing the financial statement process

Planned scope and timing of audit

- Audit includes examining on a test basis, evidence supporting the amounts and disclosure in the financial statements: therefore, our audit will involve judgement about the number of transactions to be examined and areas to be tested

- Material misstatements may result from:
  - Errors
  - Fraudulent financial reporting
  - Misappropriation of assets
  - Violations of laws or government regulations that are attributable to the Agency or to acts by management or employees acting on behalf of the Agency

Planned scope and timing of audit

- Communicate significant findings and internal controls matters that are required to be communicated at the conclusion of the audit

- Timing of work to be finalized with management
  - Interim fieldwork - June 2022
  - Final fieldwork – October 2022
  - Report issuance – December 2022

Nitin Patel, CPA
nitin.patel@claconnect.com

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING
Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor

Audit Committee

INFORMATION ITEM

2B

Date: June 15, 2022

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

Committee: Audit   *06/06/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Accounts Payable Operational and Internal Control Audit Report - Review of Procure to Pay Processes for Planning and Resources

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Executive Summary:

Internal Audit (IA) staff completed an evaluation of the procure to pay process for professional and consulting services administered by the Planning and Resources Department (P&R). The objective of the audit was to evaluate the procure to pay processes including contract implementation, requests for services, purchase orders, receiving, approval and payment processing to identify any problems, bottlenecks, and constraints in the various steps to process vendor invoices timely. The Review of Procure to Pay Processes for P&R noted that approximately 200 invoices totaling over $2 million are paid each year. The report attached provides a list of 11 observations and recommendations related to: the need for more efficient processes and procedures, visibility of transactions through monitoring tools and reports are needed, Standard Operating Procedures should be documented and formalized to establish consistency in processes and use as guides for meeting goals, the need for technology tools for routing, tracking and monitoring invoices and transactions, utilizing monitoring reports to prioritize payments, and established key performance indicators and measurements are needed. Of the 11 audit recommendations provided, 6 are for P&R, 2 for CAP, 3 new and 8 restated for Accounting. The report that follows provides details of the current process and the list 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. The Plan proposed the various Procure to Pay Audits under the Accounts Payable Operational and Internal Control Audit.

Environmental Determination:

Not Applicable

Business Goal:

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Planning and Resources 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 - Audit Report for the Accounts Payable Operational and Internal Control Audit - Review of Procure to Pay Processes for Planning and Resources
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

DATE: May 25, 2022

TO: Shivaji Deshmukh
           General Manager

FROM: Teresa V. Velarde
           Manager of Internal Audit

**SUBJECT: Accounts Payable Operational and Internal Controls Audit Report –
Review of Procure to Pay Processes for Planning and Resources**

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 Planning and Resources. 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 Controls 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 operating procedures were established and to identify areas for improvement. The scope of the Review of Procure to Pay Processes (P2P) for Professional Services is to evaluate the processes for the professional services as administered by the Planning and Resources Department (P&R).

The specific objectives of the audit include:
- Evaluate the invoice processes, including receiving and payments, related to professional/consulting services procured by P&R
- Evaluate the procurement processes, including ordering and receiving processes for the professional/consulting services administered by P&R
- Determine compliance with Agency Policies
- Determine compliance with department Standard Operating Procedures (SOPs)
- Evaluate internal controls
- Evaluate the timeliness of the receiving and payment functions
- Evaluate the use of technology and report tools
- Identify operational efficiencies and opportunities for improvement

Water Smart - Thinking in Terms of Tomorrow

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

- <u>Interim Audit Report: Accounts Payable Operational and Internal Controls Audit (dated August 20, 2021)</u> 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.

- <u>Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Chemicals (dated November 24, 2021)</u> This report evaluated the Procure to Pay Processes for the Agency's chemicals (from ordering to payments). IA provided thirty-five (35) audit recommendations to: Operations & Maintenance, the Accounting and Contracts and Procurement (CAP) units of the Finance Department. (This audit will be referred to as the "P2P Chemicals").

- <u>Accounts Payable Operational and Internal Controls Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management (dated February 24, 2022)</u> This report evaluated the Procure to Pay Processes for Professional Services as administered by the Engineering & Construction Management (E&CM) unit, specifically the Master Contracts or Design Contracts. IA provided twenty-one (21) recommendations: E&CM, CAP, and the Accounting Unit. (This audit will be referred to as the "P2P E&CM").

In the previous twelve (12) months, IA has provided fifty-six (56) audit recommendations to improve efficiencies in the procure to pay process throughout the Agency. In response to the problem of late payment invoices, the Agency's General Manager created the Agency's Strike Team to help make immediate changes to improve the timeliness of vendor payments. The Strike Team meets regularly to discuss IAs observations and recommendations and the department's corrective actions and improvements while IA continues to work on additional P2P audits.

Quarterly progress reports are submitted to the Audit Committee to report on the implementation status of all P2P recommendations. IA also plans to evaluate the P2P processes related to other departments' goods and services. 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 SOPs
- Evaluation of internal controls

- Review/understanding of the processes to perform receiving, matching of procurement and invoice documents, and processing of payments
- Review and analysis of financial transactions
- Review of supporting documents

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

This report provides the results, observations, and recommendations related to IA's Review of the Procure to Pay Processes for Professional Services administered by the Planning and Resources Department (P&R), this audit will be referred to as "P2P P&R".

In FY 2020/21 and 2021/22 (as of April 16, 2022), P&R processed 243 vendor payments totaling $2,416,375 and 154 vendor payments totaling $2,075,071, respectively, for Agency related professional/consulting services (see table in the background section later in the report).

IA is reporting a total of 11 audit recommendations in the following areas:

Department Name	Summary of Audit Observations
P&R	- Some payments were paid outside the traditional P2P process because of the unique nature - P&R internal tracking tools/spreadsheets can be made more efficient leveraging tools - The department's goal of "1 to 2 weeks" for invoice approval/receiving into SAP should be evaluated and formalized - Determine the need for email communications after receiving is completed n SAP - Implement formal SOPs that follow Agency Policy A-51 and provide training on the new SOPs - The department collaborate with CAP to evaluate the unique procurement items
CAP	- Work with the department to review/evaluate payments paid outside the P2P process - Work closely with P&R to identify unique transactions and the best procurement instrument and/or procurement process for those uncommon and unique transactions - Update Agency Procurement Ordinance and Agency Policy
Accounting	- Implement a more efficient method to route vendor invoices for approval - Implement and formalizing a consistent methodology to upload invoices into the SAP – Invoice Held Feature and utilize it to monitor, track and prioritize the payable transactions - Determine the best method for capturing when items have been received and work to eliminate the overload of email notifications from the departments

This audit report is organized as follows:
- Observations and recommendations
- Flowcharts and narratives documenting the current Procure to Pay Process
- Background information about the P&R department
- Financial data and analysis of transactions selected

Acknowledgements

IA would like to extend our appreciation to the P&R, Information Technology (IT), Accounting, and CAP Departments and 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 P&R, Accounting and CAP management on May 12, 2022. Results were communicated via email to Accounting on May 16, 2022.   The results were also communicated and discussed in various meetings. Where possible, the department's management comments, and responses have been incorporated.

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Professional Services administered by the Planning and Resources 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.

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Observations and Recommendations
Procure to Pay Process for P&R

In the prior Accounts Payable Operational and Internal Control Audit Reports, it was noted that the existing problem: ***Agency invoices are not being paid by the invoice due date and/or within the payment terms.*** This problem has been the basis for the scope of the Procure to Pay audits. In this audit report, IA provides observations and recommendations related to the following:

Delays in performing the Receiving function by P&R are due to:

- *Untimely routing invoices from Accounts Payable to the P&R department for approval and receiving.*
- *The P&R Project Manager (PM) does not agree with the services billed on the invoice, and the invoice needs to be revised by the vendor (although technically not late if an edit/revision must be made, if the invoice date is not updated by the vendor, the invoice may appear to have been paid late based on the original invoice date and terms). In these instances, the PM does a due diligence review to ensure the invoice is accurate. See details of our analysis, attached.*
- *There is no backup administrative support to perform the receiving function in SAP during staff absences/leaves, or when there are other assignments and priorities.*

Delays in processing invoices for payment by the due date by AP are due to:

- *Processes and procedures require changes to make them more efficient*
- *Identification, monitoring and visibility of transactions that have been received into SAP and are waiting to be processed for timely payment*
- *There are no documented SOPs for Accounting processes to establish a consistent, routine, methodology for prioritizing and processing timely payments*
- *Improved communication and procedures to ensuring timely payments*

Potential 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*
- *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 matrix that follows, identifies 11 audit observations and related recommendations corresponding to the P2P processes as illustrated in the flowchart and the narrative that follow the matrix. The matrix also provides information about the impact to the process if the recommendations are implemented and notes the Department(s) that need to collaborate to implement corrective action. The financial information and IA analysis on the last page provide additional support for the observations and recommendations identified.

Internal Audit's List of Observations and Recommendations

Planning and Resources (P&R)

	Dept taking the lead to implement	Observation, Issue, or Idea	Recommendation	Impact on revised/updated process with recommendation being implemented
1	P&R	***Unique transactions paid outside of the traditional P2P process*** IA noted that some vendors managed by P&R (i.e., Chino Basin Watermaster, South Coast AQMD, all County of San Bernardino invoices and other public agencies) are paid via a Check Request and/or Direct Pay, (approximately 27% 66 of 243 in FY2021) instead of going through the regular P2P process (begins with a PR, CAP prepares a PO, receiving is done against a PO, payment is issued to a vendor after the 3-way match). P&R staff indicated that these are unique transactions that do not often fit the traditional P2P process. P&R staff stated that they are looking forward to working closely with CAP and Accounting to ensure transactions follow a more traditional P2P process that ensures tracking and visibility and not delay payments.	P&R should work closely with CAP and Accounting to establish the most appropriate P2P process for all/unique transactions. The departments should collaborate to ensure the process follows the Agency's Procurement Ordinance requirements. P&R should discuss and seek CAPs assistance to ensure there is a clear understanding of the service agreement or transaction and the required documentation that should be completed and submitted, the process to commit to purchase services, ensure vendors are properly set up and a required PR/PO are established when necessary. The P2P process should be discussed and the best procurement method that works for all the departments involved, should be formalized, and agreed to, in order to ensure transactions are tracked and payments are paid on time.	Ensuring and obtaining assistance from CAP on all procurement transactions, including unique and/or special circumstances, not commonly traditional, will help identify the best, approved procurement method under the Ordinance and Agency policies. Additionally, it will ensure visibility, tracking and monitoring of the transactions and related vendor payments.
2	P&R	***Automated Tools for Department Excel Spreadsheets*** ***Internal Invoice Tracker*** P&R uses an excel spreadsheet to track, route, and monitor approximately 200 P&R invoices/check requests a year. Information recorded in the excel spreadsheet is manually entered from the invoices received. The information recorded in the Invoice Tracker, includes invoice details *already entered in SAP by AP* in addition to information *not recorded in SAP* but are metrics the department tracks, which	**Internal Invoice Tracker** IA recommends the P&R Department work with and collaborate with Accounting and IT to evaluate if the SharePoint Document Library and/or Microsoft Office Access database would be a more efficient tool to track invoices, metrics and projects (similar to the one used by Engineering & Construction Management) or if any other technologies, tools or solutions (new and/or existing) are available (leveraging information	Leveraging the use of existing technologies will make the process more efficient and eliminate duplication of data, and assist with tracking internal metrics, including: • Centralized location • Tracking/routing capability • Measures metrics and time frames • Predetermine parameters for field/data entry • Collaboration tool • Reduces reliance on email communications

		includes the date P&R received the invoice from AP/PM, approval dates, and date invoices were returned to AP for payment. While this is a good control to track and monitor department-specific invoices, the department could leverage the automated tools for tracking and routing invoices. This would assist in eliminating additional manual data entry, tracking and monitoring.	already in SAP) can be leveraged to record, track and route invoices for approval, to make the process more efficient and effective and eliminate the need for a stand-alone spreadsheet. Or determine if the current process with the excel spreadsheet is the best method.	• Possibly provides email or automatic notifications • Efficient safekeeping tool
3	P&R	*Automated Tools for Department Excel Spreadsheets* *Project Specific Trackers* P&R staff have 8-10 excel spreadsheets that are project specific, for the purpose of monitoring each project's contract spending, payments issued, funds remaining, PO terms and other details of the contract/project. Vendor invoice amounts are manually entered into the project specific excel spreadsheets. While this is a good internal control to track/monitor contract and project spending, the department could leverage information already in SAP for contract/project monitoring and spending.	**Project Specific Trackers** IA recommends P&R Department work with and collaborate with CAP, Accounting, and IT to evaluate if existing reports in the Agency's financial system (SAP) can be leveraged, utilized and/or developed to monitor P&R's contracts/projects to make the process of tracking/monitoring more efficient. Or evaluate if there are existing reports that can be used (for example the Contract Expiration Report and others). Or determine if the current process with multiple excel spreadsheets is the best monitoring method.	Leveraging existing technologies will make the process more efficient and eliminate duplication of data, and automatically records and tracks the spending for contracts/projects and ensure there is a good and reliable monitoring control to continuously review and track project information.
4	P&R	*Evaluate Department's Current Goal of "1 to 2 weeks" for Invoice Routing and Processing Receiving into SAP* P&R has a goal to obtain all required approval signatures on invoices and complete the receiving function in SAP within one to two weeks of the date the invoice arrives to the P&R Department. Currently, P&R's average is approximately 7 days. P&R should evaluate the goal to determine if efficiencies can be incorporated to expedite the process to allow additional time for Accounting to process the payment and formalize the goal in actual, total number of days.	P&R determine the most appropriate metric (in total number of days) for completing receiving and work closely with Accounting to evaluate and determine if the current goal to turnaround the approved invoice and complete the receiving into SAP allows sufficient time for Accounting to complete the 3-way match and process the payment by the due date. P&R should determine the best metric and document the metric in actual total days, in the updated, formal SOP.	Coordination between the P&R's goals to complete the receiving and the time needed for the Accounting Unit to process the payment to ensure payments are made by the due date.

5	P&R	***Email Notifications to Accounting (after Receiving is complete in SAP)*** P&R administrative staff currently send email notifications to the AP group email address after the receiving process has been completed in SAP to notify them of the receiving. This may not be the most efficient/effective way to report that the receiving in SAP has been completed. Additionally, Accounting may be receiving too many emails.	IA recommends P&R take the lead to discuss with Accounting to determine if email notifications are needed to notify when the receiving process has been performed in SAP. P&R and Accounting work together to establish the most effective and efficient communication method and work to minimize the number of emails sent to AP.	Evaluate the most efficient/effective way to notify and communicate that the receiving has been performed to eliminate the need for additional emails. Utilizing SAP workflow notifications and/or other technology and solutions would be more efficient and are provided as a recommendation to Accounting below.
6	P&R	***Formal Standard Operating Procedures (SOPs) & Training*** P&R Administrative staff keep desk procedures and "how to guides" to perform certain tasks. While these are good reference tools to have, these should be formalized, using Agency Policy A-51, as official department SOPs to document the various processes related to invoice processing, including, routing of the invoices, performing the receiving in SAP, tracking and monitoring spending on POs, contracts and projects, and other budget and fiscal activities. Training should be provided that is consistent with the formal, documented SOP.	P&R consider formalizing the current documented desk procedures using the Agency's Policy A-51 for documenting department SOPs to ensure these include metrics/KPIs/goals for processing receiving and other activities including procedures for processing invoices, routing, tracking, obtaining approvals, receiving in SAP, monitoring POs, contracts and projects, and other budget and fiscal activities. Additionally, provide periodic training to reinforce the most updated SOPs and ensure procedures are available to all staff.	SOPs provide consistent procedures for employees to follow and be trained on. SOPs serve as a resource and reference guide during staffing changes (i.e., leaves, turnover, retirements, etc.). P&R stated they will document their current desk procedures following A-51 format.

Contracts and Procurement (CAP)

	Dept taking the lead to implement	Observation, Issue, or Idea	Recommendation	Impact on revised/updated process with recommendation being implemented
7	CAP	***P&R unique procurement needs and/or P2P training needs*** Noted instances when P&R payments are made to vendors outside of the traditional P2P process (PR, PO, receiving against a PO, payments issued to a vendor). These types of payments are sometimes paid using a Check Requests and/or using Direct Pay (for example: POs not carried-forward from the prior fiscal year and/or funding has been returned and having to use the current year's funds to pay the vendor's invoice, etc.). For example, Chino Basin Watermaster, and other public agencies) are paid via Check request (approximately 27% 66 of 243 in FY2021). P&R has unique procurement requirements and training needs.	CAP should take the lead to work closely with and collaborate with P&R to evaluate the unique transactions and vendor agreements/services and provide the necessary information, assistance, and training to properly set up the most effective procurement instrument that follows the requirements of the Agency Ordinance and Agency Policies and follow an approved and efficient P2P process.	Unique transactions require collaboration and review. Payments to vendors going through the P2P process ensures proper accountability, visibility and tracking and ensures the proper internal controls and policies are followed. Information and training and information will ensure staff understand the requirements of Agency policies related to procurement instruments.
8	CAP	***Procurement Ordinance No. 108 and Agency Policy A-50*** *Agency Policy A-50* is currently applied to PO and Non- PO transactions, although the title may be misleading. The current Policy A-50 is old and outdated. Additionally, the Agency-wide reorganization has resulted in changes to department names and staff positions/titles, and possibly approval authorities; therefore, no longer matches the requirements and information listed in the Agency policy A-50. A-50 and the Procurement Ordinance require updates.	CAP should take the lead to make needed updates to Agency Policy A-50 and the Procurement Ordinance, to ensure they provide policy requirements for both PO and Non-PO items and addresses the changes resulting from the recent Agency reorganization to establish the most current and applicable controls for the Agency's procurement activities.	Having multiple documents that communicates consistent information reduces confusion and increases clarity and understanding. Establishing and communicating current policies and procedures reduces the risk of misunderstanding for departments and ensures both the policy and business practices match one another.

Finance and Accounting Department (Accounting Unit)

	Dept taking the lead to implement	Observation, Issue, or Idea	IA Recommendation	Impact on revised/updated process with recommendation being implemented
9	Accounting	*Routing Vendor Invoices* Currently, there does not appear to be a consistent method for how the vendor invoices are routed from AP to the P&R Department. There is no use of SAP or other workflow technology for routing, tracking, and monitoring invoices for approval and back to accounting after they have been approved and received. In FY 2021, P&R had over two hundred (200) invoices, and for FY 2022 (as of the beginning of April 2022), P&R has already received approximately one-hundred fifty (150) invoices. (Approximately sixteen (16) a month). The audit noted that P&R invoices were not always sent to the P&R department soon after the invoice date or soon after AP receives the invoices. IA randomly selected 20 items for review and noted, also see the last 2 pages of this report for details and the analysis: • In five (5) of twenty (20), it took longer than thirty (30) days for the AP group to acknowledge receipt of the invoice from the vendor (based on the date-stamp by AP) • In two (2) of twenty (20), it took longer than thirty (30) days for the AP group to route the invoice to P&R (based on the date-stamp by AP). P&R stated they do not always wait until the invoice is sent from AP to process for approval. If they are copied on the email from the vendor with the invoice they begin to process. In the 20 items that were selected for IA review: • Four (4) of the twenty (20), the processing and routing started by P&R before the invoice was	Accounting should take the lead to work directly with IT to determine if current or new technologies can be leveraged to ensure timely uploading, tracking, and routing of invoices to ensure there are no delays in the payment process. Accounting should work directly with P&R to evaluate if using the SharePoint Document Library (similar to the one developed for Engineering & Construction Management) and/or any other technologies and solutions (new or existing) to manage and route the P&R invoices. Additionally: • Establish a consistent system/method and best practices for uploading and routing vendor invoices to the correct department as soon as they are received from vendors. • A metric/goal that establishes the total number of days it should take to route the invoice should be determined and established with the goal of paying the invoices on time (possibly 1-4 days).	Having a consistent and systematic method and process for uploading and routing vendor invoices and leveraging technology tools to route, monitor, and track invoices will ensure: • Timely review, tracking and payment of invoices • Centralized location for all invoices • Improves visibility of all the invoices • Assists with tracking the process of the invoices • Provides accessibility, especially if there are more than one administrative staff member reviewing/monitoring invoices • Provides one location for all Agency invoices to and possibly not having to research and determine who the assigned PM is for the project/vendor/invoice • Reduces the amount of and the reliance on email communications • Saves time by not having to search and mine through emails looking for vendor's invoices, and • Ensures timely payment of vendor invoices

		sent to the P&R from Accounting because the PM and/or P&R Admin staff were copied on the email to the AP group by the vendor. As noted in the report, most of the invoices are emailed to the AP group email address and the PM and/or Admin staff are included. Accounting stated that even though the PM and staff are included on the email, AP will still route the vendors invoices via email to P&R during the "Invoice Intake Process" because all invoices should come into Accounting first. P&R noted that in calendar year 2022, Accounting has not been forwarding and/or routing any invoices to P&R, and the department is relying on the invoices that are sent via email directly to P&R from the vendor.		
10	Accounting	**_Shared Vendors_** The audit noted there are departments that use the same vendors for different projects making it difficult for accounting to timely route the invoice to the appropriate staff because each department has a different designated person. For example, one vendor might be working on two different projects which are managed by two different departments (i.e. Engineering, Operations, P&R). Some invoices come into the Agency and do not provide enough information about the projects and departments or the PM contact person. This makes it difficult for AP to identify which department the invoice should be routed to. As a result, this requires additional research and time by AP to properly and timely route the invoice.	To minimize delays in routing invoices for approval and paying on time, IA recommends Accounting take the lead to work closely with the IT and respective departments involved to: 1) determine if having an updated list of current vendors and related projects per department would be a good reference to rely on for timely/properly routing invoices, 2) determine if a SharePoint Document Library (similar to the one developed for Engineering & Construction Management) will assist with routing, 3) implement other technologies and solutions (new and/or existing) or workflow to implement a more efficient tool to manage and route invoices that are shared amongst various Agency departments, and 4) work directly with vendors to request they add additional identifying information directly on	Evaluating alternatives to expedite the time it takes to route the invoice to the correct department would assist in ensure the invoices are approved timely and the receiving function is completed timely to ensure invoices are paid on time.

			the invoices (project/contract, PM, etc.).	
11	Accounting	**_Email notifications_** The AP group email receives email notifications from the P&R Admin staff after the Receiving process has been completed, and this may not be the most efficient/effective way to communicate/report that receiving in SAP has been completed. For each Professional Services invoice, receiving is performed, while for Check request no receiving is performed. In this review, IA identified there were at least 200 invoices more or less, where receiving must have been performed in SAP. Email communication can be overwhelming and overused and may not be the most effective to communicate that receiving has been completed in SAP.	Accounting management should take the lead to work directly with P&R department to determine the most efficient/effective way to communicate that the receiving function in SAP has been performed. Both departments should discuss and agree if there is a need to use email communication for invoice management.	Establishing an agreed communication process for invoice and payment management will improve efficiency.
Re stat ed	Accounting (Restated)	**_Visibility of Invoices Routed to P&R_** Once AP routes invoices to the department, AP has **no visibility** of the invoices and where they are in the review/approval process until the receiving is completed in SAP. P&R (similar, to Engineering & Construction Management) tracks and monitors their invoices received either from AP or the vendor, while AP has no visibility once invoices are routed out of the department. For AP, the invoice transfer and flow are not tracked/monitored and there is no visibility for AP as to where in the approval process	IA recommends Accounting take the lead to work directly with the IT and P&R Department to determine if a SharePoint Document Library (similar to the one developed for Engineering & Construction Management) and/or any Other Technologies and Solutions (New and/or Existing) would be a more effective and efficient tool to manage and route all the invoices, including showing the status and where the invoices are in the process, and providing visibility to Accounting and the end-user department. **(This recommendation was provided in the P2P for E&CM and, according**	Having a SharePoint Document Library and/or other type of software solutions to monitor and track the workflow of invoices will assist with: • Improved visibility, tracking and monitoring of all incoming and outgoing invoices from AP • Reduces reliance on email correspondence and communications • Efficiencies with researching invoices.

		the invoice is at. AP is not able to follow up on overdue items or determine when items are overdue.	*to Accounting, is currently In Progress of being addressed)*	
Re stat ed	Accounting (Restated)	**SAP – Invoice Held Feature** All invoices received electronically via email are currently uploaded by the interns and parked in the Invoice Held Screen in SAP until processing by AP.	The Accounting management should continue to work with the IT Department and determine if an invoice recognition software and/or other technology-based software/systems (new and/or existing) could assist with uploading, tracking and monitoring invoices. *(This recommendation was provided in the P2P for E&CM and, according to Accounting, is currently In Progress of being addressed)*	The use of technology tools/solution as invoice recognition software can increase efficiency of the Procure to Pay processes, and provides an overall visibility of all the invoices received and, in the queue, to be processed by the Agency.
Re stat ed	Accounting (Restated)	**AP Process/method for selecting and prioritizing items for payment** 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. In this audit, IA found: • Twelve (12) of twenty (20) instance, where it took longer than 2 weeks to process and post for payment, after the invoice had been returned from the P&R department to the Accounts Payable Group. Additionally, there is no documented/formal process for how the three-way matching is performed. 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 several screens in SAP.	IA recommends Accounting: • 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, OR • consider working with the IT department to develop SAP workflow notifications that Receiving has been completed against the PO and/or SAP, and • consider technology, software, and/or artificial intelligence tools/ platforms/systems for invoice processing and management. *(This recommendation was provided in the P2P for E&CM as Recommendation #13 and, according*	The benefit of implementing these recommendations provides management the opportunity to reduce these risks of: • Open, unresolved invoices may not be posted by the closing deadline, • Appropriate/timely matching of invoices with receiving documents, and purchase orders may not be performed.
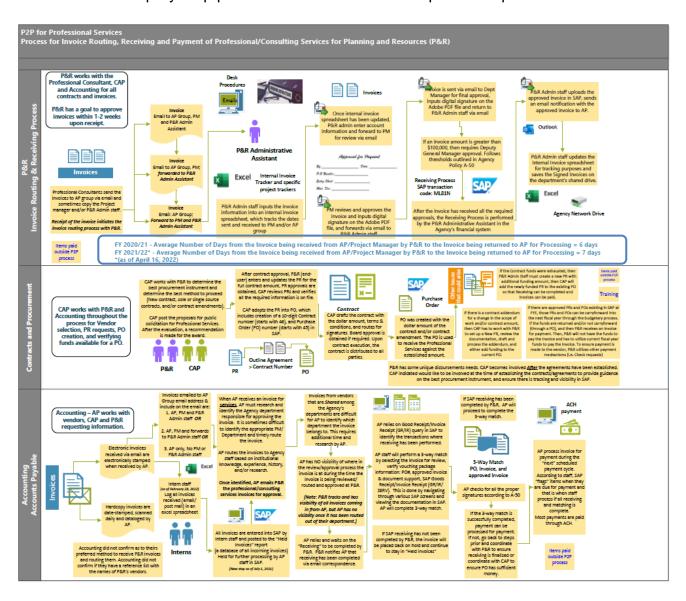
			to Accounting, is currently In Progress of being addressed).	
Re stat ed	Accounting (Restated)	***SAP "flag" for payment of invoices*** A control was not established in the SAP system for the AP processes of the Invoice for payment during the "next scheduled payment cycle". Accounting staff indicated that SAP "flags" when an invoice is due and that is how staff determine what to pay. If SAP flags at the exact invoice terms (on the due date and after) this could be a big reason why all invoices are paid in the month after the due date (and considered paid late) (per our review of all payments, see table in this audit report).	The Accounting management should take the lead to work with the Leadership Team to determine the Agency's policy and business decision of when to pay invoices (prior to due date, on the due date or after due date). Based on results noted above, if necessary, the Accounting 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. *(Note: This recommendation was provided in the P2P Chemicals audit report as Recommendation #25 and P2P E&CM as Recommendation #15, both currently In Progress).*	The Accounting Unit will be able to see items that are due within the payment cycle to process for payment by the due date. A systematic method to pay invoices before they are due and reduce the instances of late invoices and improve efficiency for invoice payments.
Re stat ed	Accounting (Restated)	***Accounting SOPs*** 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. *(Note: This is recommendation was provided in the P2P Chemicals audit and the P2P E&CM audit and according to Accounting, SOPs are currently In Progress and were planned for completion by June 2022).*	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.
Re stat ed	Accounting (Restated)	***Training on new/updated SOPs*** 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.	Accounting should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures. *(Note: This is recommendation was provided in the P2P Chemicals audit and the P2P E&CM audit and according to Accounting, SOPs are*	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.

			currently In Progress and were planned for completion)	
Re stat ed	**Accounting (Restated)**	**_KPIs, goals and objectives for the timely payment of invoices._** There is no information available of performance metrics and KPI's, goals and objectives 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. *(Note: This is recommendation was provided in the P2P Chemicals audit and the P2P E&CM audit and according to Accounting, currently In Progress of being addressed)*	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.
Re stat ed	**Accounting (Restated)**	**_Professional Accounting Consulting services_** 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. IAs P2P 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.	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, and/or 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 recommendations, incorporate best practices that ensure payments are made timely, SOPs are documented, and training is provided to staff. *(Note: This is recommendation was provided in the P2P E&CM audit and there has been no action on to accept or reject recommendation.)*	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.

Flowchart: Procure to Pay Process for Planning & Resources (P2P P&R)

There are three (3) main departments involved in in the P2P process for the professional/consulting services invoices administered by P&R: P&R, CAP, and Accounting. IA documented the P2P process using the flowchart below, and the narrative documents the step-by-step process as confirmed with respective departments.

Narrative: Procure to Pay Process for Planning & Resources (P2P P&R)

Planning & Resources – Professional/Consulting Services – Purchase Requisition Process

New Contracts, Sole or Single Source (regardless of dollar amount):

1) Project Manager (PM) determines a new Professional Services contract needs to be established and notifies P&R Administrative staff.

2) P&R Administrative staff enters a Purchase Requisition (PR) for $1 dollar (to serve as a placeholder) for the new contract in SAP. After the creation of the PR, Contracts and Procurement (CAP) is notified via SAP workflows (email notification) that a PR is awaiting in the queue and triggers a pre-solicitation/kick-off meeting the nature of the contract between both CAP and P&R.

3) CAP and PM collaborate on the scope of work and the terms and conditions of the new contract.

4) Once the contracted has been drafted, the contract is forwarded to the vendor for review and signature.

5) Upon the return of the signed contract to the PM, then P&R Administrative staff will route the signed contract to Agency Management via DocuSign. Board Letter is completed and submitted to the Board Secretary according to the corresponding due date. Once the contract is approved by the Board, then the General Manager will sign the contract.

6) P&R Administrative staff will receive notification from DocuSign that the contract has been approved and forwarded to CAP, and then sends the contract via email to the vendor.

7) Then, P&R Administrative staff compile the supporting documentation (i.e., Board letter, On Tap minutes, signed contract) and enters in a new PR for the dollar amount of the contract and attaches all the supporting documentation into SAP. (Note: The $1 dollar PR is deleted by CAP when they create the contract) P&R Administrative staff will record the PR number and information into the department's Internal PR/Purchase Order tracker, which is an excel spreadsheet that serves as a reminder and reference sheet on the status of all the department's PRs and Purchase Orders (POs).

   • PR approvals – In SAP, the number of approvals required to approve a PR is dependent on the contract dollar amount, and if Board approval was required. For example, the PR will be approved by the following: Deputy Manager, Department Manager, Executive Manager, General Manager, and the Board (i.e., Board Secretary), if applicable.

8) After the PR has been approved, CAP staff receive notification and shift the PR into a PO. Once there is a PO, then the invoices can be received and processed for payment.

Contract Amendments (regardless of dollar amount):

1) PM informs P&R Administrative staff that a contract requires an amendment. Typical reasons an amendment is required: scope of work change and/or requesting additional work to be performed.

2) PM sends the proposal to the P&R Administrative staff, and a new PR is entered and the supporting documentation (i.e., proposal, original/master contract) is attached in SAP.

3) The new PR will go through the approval process (as described up above under line-item number 7). Once PR is fully approved, then CAP is notified via workflows in SAP, and will start processing the contract amendment.

4) CAP will draft the contract amendment and send to the PM for review.

5) Once the contract amendment is finalized, then CAP forwards (via email) the contract amendment to the vendor for review and signature.

6) Vendor reviews and signs the contract amendment, and return the amendment to both CAP and PM. Then, the signed contract amendment is forwarded from the PM to P&R Administrative staff. Contract amendment is saved electronically to the corresponding folder (depending on the project name/number) in the department's internal shared drive.

7) Invoices related to the contract amendment are received and processed against the PO in SAP.

Planning & Resources – Professional/Consulting Services – Invoice Receiving Process

All Invoices, except for Chino Basin Program (CBP) and Chino Basin Watermaster (CBWM)
1) Professional/Consulting Services invoices are received by email either directly from the vendor OR from Accounts Payable (AP).
   (Note: Majority of the vendors will send the invoice via email to AP and copy P&R Administrative staff and/or the PM on the email.)
2) Once the invoices are received via email, P&R Administrative staff will input the information into the department's Internal Invoice Tracker (excel spreadsheet), which is located on the department's internal shared drive and accessible by all P&R staff.
3) P&R Administrative staff inputs the following information into the Internal Invoice Tracker: invoice number, vendor name, and date received from AP and/or PM. P&R Administrative staff electronic stamps the invoice with the "approval stamp" and enters the account number and/or PO number that the invoice pertains to.
4) P&R Administrative staff forwards the invoice to the PM for review and approval.

CBP invoices (PO invoices) and CBWM invoices (Non-PO Invoices), the following additional steps are performed:
1) P&R Administrative staff enters the invoice number and amount for each vendor invoice into the another excel spreadsheet (Naming convention of the files are based on the specific project name), which calculates the spending and amount of funds remaining on the contract. Afterwards, the excel spreadsheet is converted into PDF format.
2) Then, the invoice and excel spreadsheet (in PDF format) are sent via email to the PM for review and approval.

Approval process for All Invoices, include CBP and CBWM
1) After the invoice has been sent to the PM, the P&R Administrative staff enters the following information into the Internal Invoice Tracker (excel spreadsheet): date sent to the PM. Goal is for PM to approve the invoices with a week and/or 2 weeks at the latest.
2) Once the invoice(s) has been approved, the PM inputs their digital signature on the invoice and notifies P&R Administrative staff via email of its approval.
3) P&R Administrative staff sends the invoice to department management for final approval.
4) Department manager will review and approve the invoice by adding the digital/electronic signature and date, then the invoice is returned to P&R Administrative staff via email.
   a. Department retains only the signed version of the invoice and is located on the department's shared drive and does not retain multiple versions and/or copies of the invoice.
   b. If an invoice amount is greater than $100,000 or more, then the invoice is forwarded via email to the Deputy General Manager for review and approval.
   Note: P&R does not to use DocuSign for the invoice approval process, the department uses Adobe and digital signatures.
5) After P&R Administrative staff receives the approved the invoice, then the Receiving process is performed in SAP and the following information is noted on the invoice (i.e., purchase order number, line item (where the Receiving was performed), material document number, and entry sheet invoice number). P&R Administrative staff updates the Internal Invoice tracker with the date approved by Department Manager.
6) Then, P&R Administrative staff uploads the approved invoice into SAP and emails the approved invoice to the AP group and copies the PM on the email.
7) P&R Administrative staff updates the department's Internal Invoice Tracker (excel spreadsheet) with the corresponding information (i.e., dates sent to Accounting, and any pertinent notes/information)

Contracts & Procurement (CAP)

There are five (5) different paths a procurement request may take, 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. Listed below is the process related to Professional Services contracts at the Agency:

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.

Note: P&R has unique transactions, besides just Professional/Consulting services. Examples of the agreement types include: capacity, energy-share, power-purchase, revenue sharing, lease, mutual-aid and so on. Each of these transactions require a contract, but do not follow the traditional Procure to Pay process. It was noted that CAP becomes involved when the contract needs to be generated in SAP and would like to be involved as a resource at the time the agreements are being established.

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's Process to Pay the Professional/Consulting Invoices
Accounting Unit - Accounts Payable
As of February 28, 2022, the "Intake/Receiving" processes for the Agency's invoices are performed by two intern staff, instead of temporary staff.

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 Intern staff.
   - Electronic invoices are electronically stamped when received by Intern 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 Intern 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:
Invoice Routing:

5) P&R invoices: Invoices are emailed to the AP group, and the PM and/or P&R admin staff are sometimes included on the email, but not all the time. If only the PM is included, then the invoice is forwarded to the P&R Admin staff for processing. If both the PM and/or P&R Admin staff are not included on the email, then AP has to research to determine the department the invoices belongs to.
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,
    - Invoices parked in the Invoice Held Feature, which includes the original invoices submitted by the vendors,

- 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, P&R includes a cover page/template as part of the supporting documentation that has all the approvals within one location in the document. This template is also used in the

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 they should 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

As stated in the prior Accounts Payable Operational and Internal Control Audit Report – Review of Procure-to-Pay processes for Professional Services - Engineering & Construction Management, dated February 24, 2022:

> "**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."*
>
> *(Source: 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)*

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.

Planning & Resources

P&R is dedicated and focused on programs that will meet the future water, wastewater and energy needs of the Agency's region. P&R's mission statement:

MISSION STATEMENT

The Strategic Planning & Resources (SPAR) Department plans and implements regional projects and programs to meet current and future water/wastewater needs and regulatory requirements. SPAR also seeks to establish and strengthen relationships with local, regional, and statewide stakeholders to ensure access to water supplies, wastewater recycling, and to explore related institutional efficiencies such as energy management.

To fulfill its mission statement and major priorities and initiatives, P&R contracts for many kinds of Professional/Consulting Services as part of day-to-day operations, including for the Water Storage Investment program (WSIP)/Chino Basin Program (CBP).

P&R Payment Types
AP processes two (2) types of payments related to Professional/Consulting Services for the P&R department; they are as follows:

- Professional/Consulting Services (PO invoices) – these payments are for Professional Services related to capital construction and non-capital construction projects. Examples include Chino Basin Program (CBP)/Water Storage Investment Program (WSIP), Regional Contract Facilitation, Water Bank, and so on. These payments are paid through the P2P processes and contain these elements: contract/agreement, PRs, POs, approvals, Receiving, 3-way match, and payment.

- Payments to Other Entitles (Non-PO invoices) – these payments are to other public sector organizations and are paid via Check Request. Non-PO invoices are governed by Agency Policy A-50 (Non-Purchase Order Invoice Approval, effective April 27, 2015). Examples include Chino Basin Watermaster (CBWM), Cucamonga Valley Water District (CVWD), South Coast Air Quality Management District (SCAQMD), State Water Resources Control Board (SWRCB), Santa Ana Watershed Project Authority (SAWPA), and all San Bernardino County invoices (i.e., Fire Protection District, Transportation Authority, Assessor-Recorder-County Clerk, and so on).

  These payments are *Not* paid via the P2P processes (meaning there is no PR, PO and Receiving performed). Payments made via Check requests are subject to verification of the approvals and amount paid.

Invoices/Check Requests Processing Summary
To accomplish the department's responsibilities, P&R contracts for various professional/consulting services for various projects that require studies, master plans, and/or environmental reports, in addition to, Agency programs such as the CBP/WSIP. The total invoices and check requests processed, and corresponding amounts paid to vendors for the last two fiscal years are as follows:

Planning & Resources Department Total Number of Invoices/Check Requests Processed		
Fiscal year	**Number of Invoices and/or Check requests**	**Dollar amount**
FY 2020/21	*243*	*$ 2,416,375*
FY 2021/22 (1)	*154*	*$ 2,075,072*

Source: Planning and Resources Department, Internal Invoice tracker,
FY 2020/21 and 2021/22 (as of April 16, 2022) [1].

Invoice Routing process for P&R

For this review of P2P processes for Professional Services, IA reviewed the internal data recorded in the P&R department's Internal Invoice Tracker, which is an excel spreadsheet that is utilized to record, track, and inventory all invoices and/or check requests that are *incoming* into the department for Project Manager and Department Manager approvals and *outgoing* to AP for payment processing. An Internal Invoice Tracker is maintained for each individual fiscal year, which is a good control to maintain accountability of all the invoices/checks request that are routed and processed by the department.

Using the data in the department's Internal Invoice Tracker, IA analyzed the information to obtain an overall understanding of the dollar amount, quantity, and volume of invoices and check requests that are being processed by the P&R department. The table shows the total processed for the last two fiscal years:

Planning & Resources Internal Invoice Tracker (Excel spreadsheet)		
Statistical Information	**Fiscal Year 2020/21**	**Fiscal Year 2021/22** [1]
Total dollar value of invoices & check requests processed	$ 2,416,375	$ 2,075,072
Number of vendors	44	28
Total number of invoices & check requests processed	243	154
Average number of days for P&R to receive an invoice from Accounts Payable/Project Manager (the Admin Assistant receives from either AP or the PM)	11 days	23 days
Average number of days for P&R to obtain Project Manager's approval	1 day	1 day
Average Number of days between Project Manager's approval and to obtain Department Manager's approval	3 days	2 days
Average number of days between Department Manager's approval and send the invoice to Accounts Payable for processing	3 days	4 days
Average # of days to complete approvals, complete receiving into SAP, and notify AP (from the date the P&R Admin. Assistant received the invoice from Accounting and/or the PM, to the date sent to AP).	**6 days**	**7 days**

(1)   = Internal Invoice Tracker information as of April 18, 2022, approximately 9 months of the fiscal year.

P&R has an internal goal of routing and completing the signature requirements on invoices and/or check requests and completing the receiving function in SAP within one (1) to two (2) weeks of the date the invoice arrives in P&R department (during the audit, P&R staff stated their goal is seven (7) days). IA's review noted the average is approximate 7 days for FY 2021/22 (as of April 16, 2022).

Invoices Processed: Purchase Order and Non-Purchase Order

Using the Accounts Payable Monitoring Report, IA summarized the data for majority (*not all*) of the vendors that P&R had listed on the Internal Invoice Tracker. The information listed in the table below is **not specific** to the P&R department, and it **includes all the transactions associated with that vendor**. At the Agency, there are many vendors that are shared amongst the various departments; therefore, when reviewing the data, the reports do not distinguish by department. The table below provides a general, high-level overview of the number of invoices/payments that were processed as a PO Invoice (includes PR, PO, 3-way match) and Non-PO Invoice (Payment requested via Check Request, No PR, PO and/or Receiving) for these vendors.

Number of transactions processed with a PO and Non-PO for all Agency-wide shared vendors (using P&R's list of vendors*)			
Fiscal Year	**PO Invoice** *(Document Type: VI)*	**Non-PO Invoice** *(Document Type: VM)*	**Total**
2020/21	*396*	*373*	*769*
2021/22 *(as of April 22, 2022)*	*229*	*204*	*433*

Sources: AP Monitoring Report for FY 2020/21 and FY 202/22 (as of April 22, 2022), P&R Internal Invoice Tracker. *IA was unable to trace 2 vendors from the P&R Invoice Tracker to the AP Monitoring Report.

Timeliness of Payments

From P&R's Internal Invoice Tracker, IA obtained a list of vendors and pulled the transactional information for those vendors from the AP Monitoring report. Using the data gathered for the specific vendors, IA summarized the number of invoices that were paid *on time* or *late* for FY 2021/22 (as of April 2, 2022).

The information listed in the table below is **not department-specific (not just P&R)** and **includes all the transactions associated with that vendor (some vendors are shared because of multiple projects administered by different Agency departments)**. The table below provides a general, high-level overview of the number of invoices/payments that were paid on time or late for these shared vendors.

Number of transactions processed as On Time or Late for all Agency-wide shared vendors (using P&R list of vendors*)			
Fiscal Year	**On Time**	**Late**	**Grand Total**
2020/21	509	260	769
Percentage	66%	34%	100%
2021/22 *(as of April 22, 2022)**	178	255	433
Percentage	41%	59%	100%

Sources: AP Monitoring Report for FY 2020/21 and FY 202/22 (as of April 22, 2022), P&R Internal Invoice Tracker. *IA was unable to trace 2 vendors from the P&R Invoice Tracker to the AP Monitoring Report.

Detailed Audit Testing and Analysis
Using P&R's Internal Invoice Tracker and Accounts Payable Monitoring Report for FY 2020/21 and 2021/22 (as of mid-April 2022), IA performed a detailed review and examination to determine the amount of time required for each step in the process to pay a 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 P&R's Internal Invoice Tracker. Specifically, IA judgmentally selected twenty (20) invoices that were paid late (paid between 5 and 119 days late – after the invoice due date). ***Attachment 1*** of this report summarizes the results of the metrics and analysis. Of the 20 items paid late, IA's review showed the following, observations have been incorporated into the recommendations:

- Five (5) of the 20 invoices (items no. 5,6, 8, 9, and 15) took longer than 30 days for AP to acknowledge receipt of the invoice from the vendor, between 31 -115), per the dates documented on the invoice, electronic receive date on the invoice, and/or invoice receipt date in SAP (refer to the spreadsheet). This is an issue related to *Routing of Vendors Invoices* - see Recommendation # 8 above.

- Two (2) of the 20 invoices (items no. 16 and 17) took longer than thirty (30) days for the AP to send/route the invoice to the P&R department. This is an issue related to *Routing of Vendors Invoices* - see Recommendation # 8.

- Four (4) of the 20 invoices (items no. 8, 9, 15 and 19), the invoice processing and routing started by P&R before the invoice was sent to P&R from Accounting because the PM and/or P&R Admin staff were copied on the email to the AP group. This is an issue related to *Routing of Vendors Invoices* - see Recommendation # 8.

- Two (2) of the 20 invoices (items no. 7 and 10) took longer than two (2) weeks to obtain the Department Manager approval, which is longer than the internal metric of one (1) to two (2) weeks. Delays in obtaining the department's manager's approval and completing the receiving in SAP could be related to the PM rejecting the invoice while performing a due diligence review. In these instances, the vendor must update the invoice with the correct services before the PM approves for payment. Because the invoice date is not updated by the vendor, the invoice may appear to have been paid late based on the invoice date and the payment terms. Sometimes the reasons for why an invoice is paid late are not documented in the invoice tracker to demonstrate this review process. See *Delays in Performing the Receiving function by P&R* on page 5 of this report.

- Twelve (12) of the 20 instances (items no. 1, 2, 3, 4, 11, 12, 13, 14, 16, 18, 19, and 20), were paid late *(as late as 90, after the due date)* and it took AP longer than 2 weeks to process for payment, even after the invoice had been received into SAP by the P&R department. This is an issue related to Accounting not having a consistent and best practice method and process for selecting and prioritizing invoices to ensure timely payments of items received – see Recommendation for Accounting under ***AP Process/method for selecting and prioritizing items for payment.*** This recommendation is restated for Accounting from prior audits).
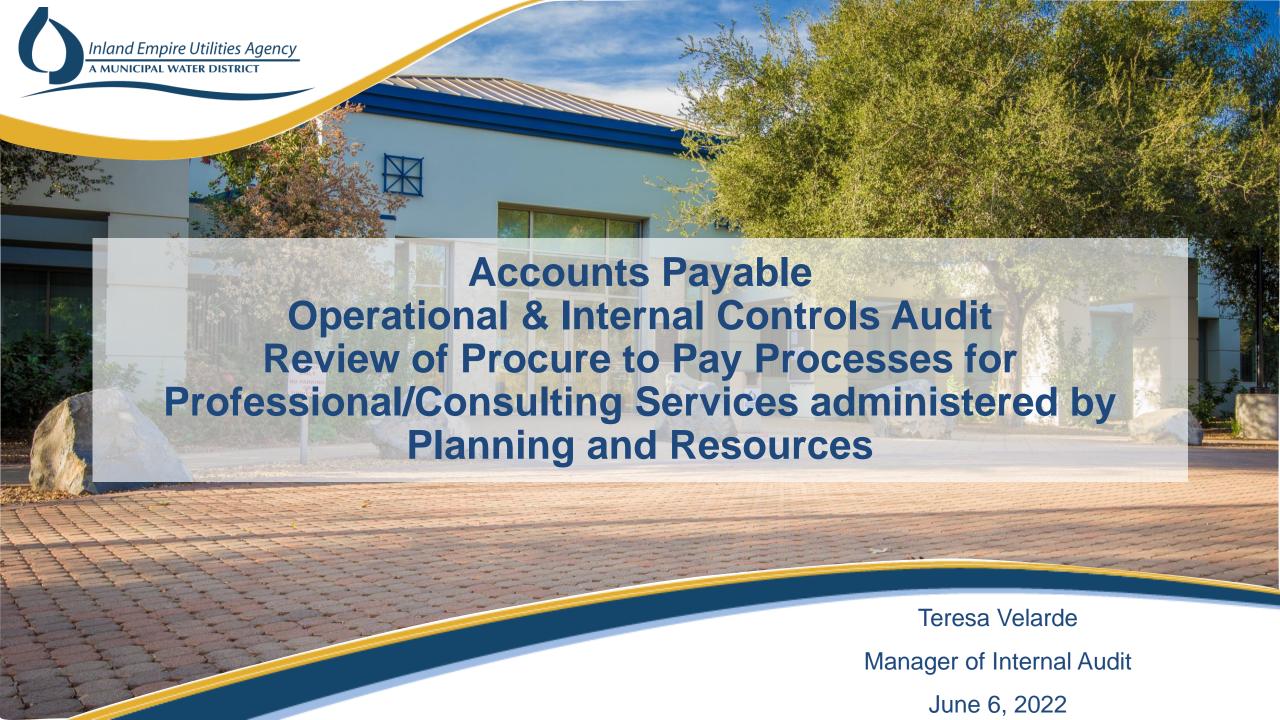
IA is available to provide additional reviews and assistance in evaluating implementation and corrective actions. IA will provide quarterly progress reports on the implementation status of all P2P recommendations to the Leadership Team and the Board of Directors.

Accounts Payable and Operational and Internal Control Audit Report -
Review of Procure to Pay Processes for Plannning and Resources
May 25, 2022
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Attachment 1
Procure to Pay Process for Professional Services - Planning & Resources
Items Selected for Detailed Analysis
Fiscal Year 2020/21 and 2021/22 (as of April 16, 2022)

Number	Vendor Name	Amount	PO Number	Date of Invoice (A)	Date AP Received the Invoice from the Vendor (B)	Date P&R Received the Invoice from AP (C)	Date Invoice was sent to PM for review and approval (D)	Date Invoice sent to Dept Manager for approval (E)	Date Receiving was performed in SAP (F)	Date Invoice was Returned from P&R to AP (G)	Date Processed by AP in SAP (H)	Date Paid per SAP (I)	Number of Days for AP to receive the Invoice	Number of Days for P&R to receive the Invoice from AP and/or PM	Number of Days for the invoice to be sent to the PM for review and approval	Number of Days for the invoice to be sent to the Dept Manager for approval	Number of Days for Receiving to be performed in SAP	Number of Days for P&R to return the invoice to the AP group	Number of Days for AP to process the Invoice	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 (A)+30 days (payment terms) = Invoice Due date - (I)
1	GEI CONSULTANTS INC	$ 54,623.50	4500032413	6/17/2021	6/21/2021	6/21/2021	6/22/2021	6/23/2021	6/23/2021	6/23/2021	6/28/2021	8/26/2021	4	0	0	1	1	0	5	59	40
2	GEI CONSULTANTS INC	$ 68,363.00	4500032413	8/18/2020	8/20/2020	8/20/2020	8/20/2020	8/20/2020	8/24/2020	8/24/2020	10/2/2020	10/8/2020	2	0	0	0	4	0	39	6	21
3	KEARNS & WEST	$ 5,976.25	4500028620	8/18/2020	8/19/2020	8/19/2020	8/20/2020	8/20/2020	8/20/2020	8/20/2020	11/2/2020	11/5/2020	1	0	1	0	1	0	74	3	49
4	KEARNS & WEST	$ 4,962.50	4500028620	9/14/2020	9/14/2020	9/14/2020	9/14/2020	9/14/2020	9/15/2020	9/15/2020	11/2/2020	11/5/2020	0	0	0	0	1	0	48	3	22
5	WEST YOST & ASSOCIATES INC	$ 18,634.75	4500037338	1/31/2021	3/8/2021	3/8/2021	3/9/2021	3/23/2021	3/23/2021	3/23/2021	3/24/2021	3/25/2021	36	0	1	10	4	0	1	1	23
6	BABCOCK LABORATORIES, INC	$ 710.00	4500037109	2/26/2021	6/21/2021	6/21/2021	6/21/2021	6/21/2021	6/21/2021	6/21/2021	6/21/2021	6/24/2021	115	0	0	0	0	0	0	3	88
7	BROWN AND CALDWELL *	$ 9,376.81	4500032778	4/21/2021	4/21/2021	4/21/2021	4/21/2021	6/7/2021	6/7/2021	6/7/2021	6/8/2021	6/10/2021	0	0	0	47	0	0	1	2	20
8	CHINO BASIN WATERMASTER	$ 18,813.25	None	4/30/2021	5/31/2021	5/28/2021	6/1/2021	6/15/2021	Non-applicable paid via Check Request	6/16/2021	6/16/2021	6/17/2021	31	(3)	4	14	Non-applicable paid via Check Request	Non-applicable paid via Check Request	0	1	18
9	WALLACE & ASSOCIATES CONSUL	$ 11,200.00	4500035336	12/31/2020	2/3/2021	1/20/2021	2/2/2021	2/2/2021	2/3/2021	2/3/2021	2/3/2021	2/4/2021	34	(14)	13	0	1	0	0	1	5
10	MEANS CONSULTING LLC *	$ 1,620.00	4500029898	4/30/2021	5/3/2021	5/3/2021	5/3/2021	6/7/2021	6/8/2021	6/8/2021	6/8/2021	6/10/2021	3	0	0	35	1	0	0	2	11
11	TRUSSELL TECHNOLOGIES INC	$ 2,910.00	4500036763	7/9/2021	7/12/2021	7/13/2021	7/13/2021	7/13/2021	7/13/2021	7/13/2021	9/16/2021	9/16/2021	3	1	0	0	0	0	65	0	39
12	GEI CONSULTANTS INC	$ 63,913.00	4500032413	9/23/2021	9/23/2021	9/27/2021	9/27/2021	9/27/2021	10/6/2021	10/6/2021	11/8/2021	11/10/2021	0	4	0	0	9	0	33	2	18
13	GEI CONSULTANTS INC	$ 61,307.00	4500032413	11/23/2021	11/29/2021	11/29/2021	11/29/2021	12/1/2021	12/2/2021	12/2/2021	2/16/2022	2/17/2022	6	0	0	2	1	0	76	1	56
14	RINCON CONSULTANTS INC	$ 40,310.27	4500036845	11/23/2021	11/23/2021	11/24/2021	11/24/2021	11/24/2021	11/24/2021	11/24/2021	2/2/2022	2/3/2022	0	1	0	0	0	0	70	1	42
15	WILLIAMS SCOTSMAN INC	$ 100,036.20	None	8/13/2021	9/21/2021	9/14/2021	9/14/2021	9/20/2021	Non-applicable paid via Check Request	9/20/2021	9/23/2021	9/23/2021	39	(7)	0	6	Non-applicable paid via Check Request	Non-applicable paid via Check Request	3	0	11
16	KEARNS & WEST	$ 2,513.75	4500028620	11/3/2021	11/8/2021	11/8/2021	1/17/2022	1/18/2022	1/18/2022	1/18/2022	1/18/2022	3/3/2022	5	70	1	0	0	0	0	24	90
17	CAROLLO ENGINEERS	$ 4,917.15	4500032676	8/17/2021	8/24/2021	1/5/2022	1/6/2022	1/6/2022	1/6/2022	1/6/2022	1/11/2022	1/13/2022	7	134	1	0	0	0	5	2	119
18	TOM DODSON & ASSOCIATES	$ 18,639.48	4500036593	10/19/2021	10/1/2021	10/19/2021	10/20/2021	10/20/2021	10/25/2021	10/25/2021	11/15/2021	11/15/2021	(18)	18	1	0	5	0	21	0	15
19	RBC RESOURCES	$ 8,092.00	4500032731	7/1/2021	7/15/2021	7/6/2021	7/6/2021	7/14/2021	7/15/2021	7/15/2021	8/26/2021	8/26/2021	14	(9)	0	8	1	0	42	0	26
20	ARCADIS U.S., INC.	$ 21,734.00	4500038860	12/2/2021	12/2/2021	12/2/2021	12/6/2021	12/7/2021	12/8/2021	12/8/2021	2/16/2022	2/17/2022	0	0	0	4	1	0	70	1	47

Source: SAP (Agency's Financial System), Accounts Payable Monitoring Report for FY 2021 and 2022 (as of April 2022), and Planning & Resources Internal Invoice Tracker.
*Invoice was rejected by the Project Manager and sent back to the vendor, the consultant sent a revised invoice at a later date.

**Accounts Payable
Operational & Internal Controls Audit
Review of Procure to Pay Processes for
Professional/Consulting Services administered by
Planning and Resources**

Teresa Velarde

Manager of Internal Audit

June 6, 2022

P2P - Planning & Resources

Audit Objectives
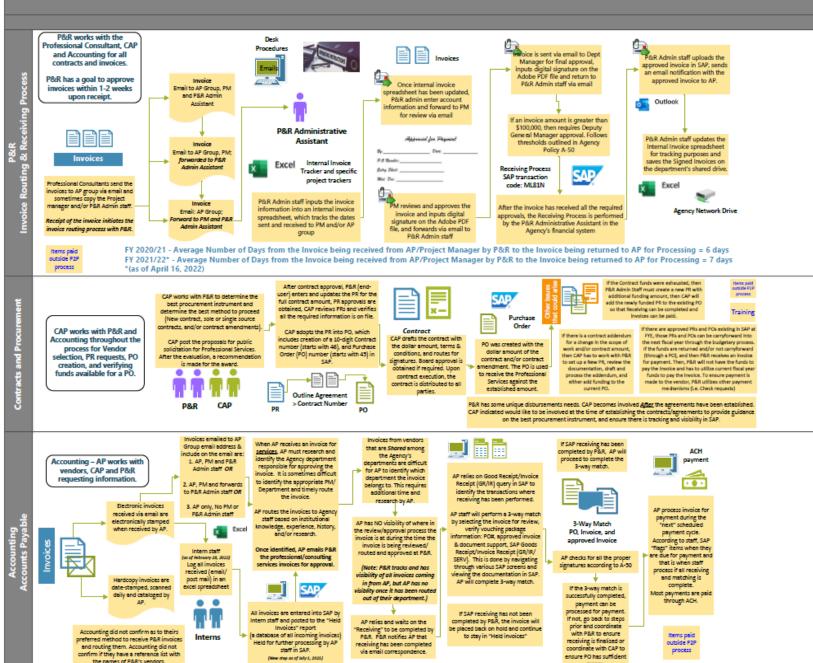
- Evaluate the invoice processes, including receiving and payments, related to Professional/Consulting Services procured by P&R

- Determine compliance with Agency policies and department Standard Operating Procedures

- Evaluate internal controls

- Evaluate the timeliness of payments

- Evaluate the efficiency of the payment process for the professional/consulting vendors administered by P&R

- Evaluate the use of technology and reporting tools

- Identify operational efficiencies and opportunities for improvement

P2P - Planning & Resources

Risks due to Late Payments

- 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 who 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

Purpose of Flowchart

- To evaluate every step and activity in the process

- To highlight and identify areas where efficiencies can be incorporated

11 Audit Recommendations:
- 6 for P&R
- 2 for CAP
- 3 for Accounting

Pages 6-15 of Audit Report

4

Audit Results

Department Name	Summary of Audit Observations
P&R	• Some payments were paid outside the traditional P2P process because of the unique nature • P&R internal tracking tools/spreadsheets can be made more efficient leveraging tools • The department's goal of "1 to 2 weeks" for invoice approval/receiving into SAP should be evaluated and formalized • Determine the need for email communications after receiving is completed n SAP • Implement formal SOPs that follow Agency Policy A-51 and provide training on the new SOPs • The department collaborate with CAP to evaluate the unique procurement items
CAP	• Work with the department to review/evaluate payments paid outside the P2P process • Work closely with P&R to identify unique transactions and the best procurement instrument and/or procurement process for those uncommon and unique transactions • Update Agency Procurement Ordinance and Agency Policy
Accounting	• Implement a more efficient method to route vendor invoices for approval • Implement and formalizing a consistent methodology to upload invoices into the SAP – Invoice Held Feature and utilize it to monitor, track and prioritize the payable transactions • Determine the best method for capturing when items have been received and work to eliminate the overload of email notifications from the departments

Professional Services Managed by Planning & Resources

Planning & Resources Internal Invoice Tracker (Excel spreadsheet)		
Statistical Information	**Fiscal Year 2020/21**	**Fiscal Year 2021/22** [1]
Total dollar value of invoices & check requests processed	$ 2,416,275	$ 2,075,072
Number of vendors	44	28
Total number of invoices & check requests processed	243	154
Average number of days for P&R to receive an invoice from Accounts Payable/Project Manager (the Admin Assistant receives from either AP or the PM)	11 days	23 days
Average number of days for P&R to obtain Project Manager's approval	1 day	1 day
Average Number of days between Project Manager's approval and to obtain Department Manager's approval	3 days	2 days
Average number of days between Department Manager's approval and send the invoice to Accounts Payable for processing	3 days	4 days
Average # of days to complete approvals, complete receiving into SAP, and notify AP (from the date the P&R Admin. Assistant received the invoice from Accounting and/or the PM, to the date sent to AP).	**6 days**	**7 days**

IA Recommendations for P2P Professional Services

11 Audit Recommendations:
- 6 for P&R
- 2 for CAP
- 3 for Accounting

— SOPs (Standard Operating Procedures) and training
— Continuous monitoring of Purchase Orders 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 (Key Performance Indicators), goals and objectives
— Seek assistance from outside professional consultants to assist and evaluate processes

Details of audit observations and recommendations are listed on the matrix on pages 6-15 of Audit Report.

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Professional Services administered by the Planning and Resources 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.

Audit Committee

INFORMATION ITEM 2C

![Inland Empire Utilities Agency - A Municipal Water District]

Date: June 15, 2022

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

Committee: Audit   *06/06/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Interim Audit Report: Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Materials and Supplies

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Executive Summary:

Internal Audit (IA) staff is in the process of completing an evaluation of the procure to pay processes for Agency materials and supplies. The objective of the audit is to evaluate the procure to pay processes including ordering, purchase requisitions, receiving, approval and payments for materials and supplies, to identify problems, bottlenecks, and constraints in the various steps to process vendor invoices timely. Additionally, to evaluate the reasons for and minimize the risk of the Agency being placed on credit hold due to late payments.

IA's preliminary review shows that additional controls, documented goals, written procedures and continuous training may be required for all procure to pay processes for materials and supplies.

The attached report, provides preliminary background information, and a detailed narrative and flowchart of the procure to pay processes. IA continues to evaluate financial transactions and data. A final audit report will be presented in September 2022.

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:

Fiscal Impact (explain if not budgeted):

N/A

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

Prior Board Action:

On June 16, 2021, the Board of Directors approved the Fiscal Year 2021/22 Annual Audit Plan. The Plan proposed the various Procure to Pay Audits under the Accounts Payable Operational and Internal Control Audit.

Environmental Determination:

Not Applicable

Business Goal:

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Materials and Supplies 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 - Audit Report for the Accounts Payable Operational and Internal Control Audit - Review of Procure to Pay Processes for Materials and Supplies
Attachment 2 - PowerPoint

DATE: May 26, 2022

TO: Shivaji Deshmukh
              General Manager

FROM: Teresa V. Velarde
              Manager of Internal Audit

SUBJECT: Interim Audit Report: Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Materials and Supplies

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit (IA) Department has performed an audit of the Procure to Pay Processes (P2P) of Materials and Supplies for the Operations and Maintenance (O&M) Department. The audit was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2021/22 Annual Audit Plan and the IAD's Charter. This report is an Interim Audit Report to provide information related to the ongoing review. IA anticipates completing the review of the P2P for Materials and Supplies and present during the September 2022 Audit Committee Meeting.

Audit Objectives and Scope:

The objective of the overall Accounts Payable Operational and Internal Controls 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 (SOPs) were established and to identify areas for improvement. The scope of the Review of Procure to Pay Processes (P2P) for Materials and Supplies is to evaluate the procure to pay processes for materials and supplies including ordering, receiving and payments, to identify opportunities to make the process more efficient and ensure invoices are paid timely.

The objectives of the audit include:
- Determine whether internal controls, Agency policies, and SOPs were established and are adequate.
- Evaluate internal controls
- Determine compliance with Agency policies and department Standard Operating Procedures

Water Smart - Thinking in Terms of Tomorrow

- Identify operating efficiencies and areas of improvement for P2P processes pertaining to materials and supplies.
- Evaluate the invoice payment processes and operations of AP related to materials and supplies procured for the Operations Unit and the Maintenance Unit
- Evaluate the timeliness and efficiency of payments for specified materials and supplies vendors for the Operations Unit and the Maintenance Unit
- Evaluate the use of technology and reporting tools
- Evaluate the late vendor payments vendors and vendors that have placed the Agency on **Credit Hold** for materials and supplies

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 Controls 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 Controls 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 provided thirty-five (35) audit recommendations to: Operations & Maintenance, the Accounting and Contracts and Procurement (CAP) units of the Finance Department. (This audit will be referred to as the "P2P Chemicals").

- Accounts Payable Operational and Internal Controls Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management (dated February 24, 2022) This report evaluated the Procure to Pay Processes for Professional Services as administered by the Engineering & Construction Management (E&CM) unit, specifically the Master Contracts or Design Contracts. IA provided twenty-one (21) recommendations: E&CM, CAP, and the Accounting Unit. (This audit will be referred to as the "P2P E&CM").

Quarterly progress reports are submitted to the Audit Committee to report on the implementation status of all P2P recommendations. IA also plans to evaluate the P2P processes related to other departments' goods and services. 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 SOPs
- Evaluation of internal controls
- Review/understanding of the processes to perform receiving, matching of procurement, and invoices, and payment processing
- Review and analysis of financial transactions
- Review of supporting documents

This interim audit report is organized as follows:
- A sample of vendors that have placed the Agency on Credit Hold
- Narratives documenting the current Procure to Pay Process
- Flowchart documenting the current Procure to Pay process
- Preliminary observations to be confirmed with additional data
- A list of additional audit procedures to be performed

Audit Results – Executive Summary
This is an interim audit report to provide information and an update on the audit work gathered to-date. Additional audit procedures and analysis are planned before the audit can be finalized (discussed later in this report). Currently, IA is still performing an analysis on receiving and payment data. IA will continue to work with all Agency staff involved. A final audit report is planned to be presented during the September Audit Committee Meeting.

Acknowledgements
IA would like to extend our appreciation to the O&M Department, Asset Management, Accounting Unit, Contracts and Procurement (CAP), and Information Technology (IT) Department, for their cooperation and assistance during the audit. IA looks forward to the continued collaboration and continually working together.

The Interim Audit Report: Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Materials and Supplies 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:sr

Background Information

As reported previous in the Interim Audit Report: Accounts Payable Operational and Internal Control Audit (dated August 20, 2021) a **Credit Hold** is when a vendor will place their customer on **Credit Hold** when they are consistently late in making payments, exceeded their credit limit, and/or identified as a risk. By placing a credit hold on the customer's account, it prevents the Agency from making credit purchases, and new orders are declined. This has been an on-going Agency problem. The significant risk for the Agency is the impact of vendors to place the Agency on **Credit-Hold** and the Agency unable to acquire the required parts, supplies for maintenance, repair, and updates to Agency equipment.

Vendors previously placed Agency on Credit Hold and Dollar Amounts paid *
(Source: Interim Audit Report: Accounts Payable Operational and Internal Control Audit (dated August 20, 2021)

Vendor Name	Nature of the Goods purchased and/or Services	Procurement Method	2019/20	2020/21
Amazon Business	Business and computer related items and accessories: paperware, iPhone chargers, tools (pressure washer, LED Emergency Light), microscope slides, dichlorination tablets, mouse, laptop back, and many others	Vendor Catalog, PO	$64,360	$54,833
Cummins Pacific LLC	Parts – (i.e., generator parts)	PO	$10,697	$9,890
Griswold Industries	Parts (i.e., tubing, fittings)	PO	$32,020	$27,882
Hach Company	Parts (i.e., LDO Probe, the LDO Model 2 (Luminescent Dissolved Oxygen), accurately measures dissolved oxygen levels in water by utilizing luminescent dissolved oxygen technology within the O2 sensor	PO, BPA	$141,238	$213,107
Harrington Industrial Plastics LLC	Parts – Pipes, valves, fittings (i.e. - RP1-Roller Assembly, Tube Assembly)	BPA	$103,581	$84,835
Hasco Oil Company Inc	Supplies – lubricants – gear oil	BPA	$71,076	$58,156
Home Depot Credit Services	Equipment, tools, supplies etc.	Catalog/Credit Card/BPA	$41,893	$36,690
McMaster Carr Supply Co	Parts- (i.e.., small parts cabinet, box with compartments, shelves, plastic bins)	BPA	$29,287	$63,219
Napa Genuine Parts Company	Parts – filters, air, oil, batteries, etc.	BPA	$14,170	$10,922
	Total		$508,322	$559,534

* This is only a sample list of past vendors for materials/supplies that have placed the Agency on **Credit-Hold** is noted below (also reported in the Interim Audit Report: Accounts Payable Operational and Internal Control Audit, dated August 20, 2021). It should be noted that this is not a comprehensive list of vendors that supply the Agency with all Materials and Supplies needed/required. This is also not a comprehensive list of all vendors that have placed the Agency on Credit Hold, as there are others. This list was initially compiled during the initial stages of the P2P audits.

<u>Process Narrative - P2P process for Materials and Supplies</u>

<u>Operations and Maintenance Department and Contracts and Procurement</u>
The Operations and Maintenance (O&M) Department consists of the Operations Unit and the Maintenance Unit. The Operations Unit and the Maintenance Unit Administrative staff will make a request for materials and supplies to the O&M designated staff personnel for creating and submitting purchase requisitions. The Maintenance Planner creates a purchase requestion for work orders in SAP. The Operations Unit and the Maintenance Unit can order and procure materials and supplies using one of five (5) different purchasing options:

1. O&M Administrative staff and the Maintenance Planner has the option to order via vendor catalogs in SAP purchase requisition Catalogs for materials and supplies. Vendor catalogs are established through Contracts and Procurement (CAP) and have approved and negotiated prices.
   a. CAP creates a standard purchase order (PO) for a catalog order. The PO may be sent to the vendor based on vendor request and a copy of the PO sent to the requestor of the department. The department or the Warehouse uses receiving document (i.e., packing slip, bill of lading, goods receipt) to receive against the PO.
   b. A PO is established if a vendor's catalog is not available.
      - O&M staff will obtain the required number of quote(s) or proposal(s).
      - Then O&M staff enters the purchase requisition (PR) with the requestors' justification per the Agency Procurement Ordinance thresholds (i.e., $3,500, and above purchase)
      - The workflow in SAP is determined by the cost center entered in the PR request. The request will automatically be sent through SAP workflow to the person who is assigned to the cost center.
      - CAP will review the submittal package noted above in step three (3) for vendors without a catalog option. Next, CAP will create a PO. CAP will provide a vendor the PO and a copy to the department who requested PR.
2. O&M staff enter a PR request with support (i.e., applicable quotes and documentation per Procurement Ordinance #108) in SAP. CAP will review approved PR request and CAP will approve the corresponding PO in SAP for receiving and payment of invoices.
   - If there is a pricing change for Contract PO throughout the fiscal year, CAP must establish a new Contract PO with the new PR and new negotiated pricing, based on information provided by O&M.
   - If there are not enough funds in the established Contract PO, O&M staff create a new PR request with additional funding and CAP facilitates adding the new funded PR to the existing PO.
3. An additional purchasing option is to establish Blanket Purchase Order Agreement (BPA) for routine, repetitive purchases, and negotiated fixed pricing.
   - O&M Staff works with CAP to establish BPAs and utilizes them to expedite work orders, materials, and supplies acquisition for the current fiscal year.
   - O&M staff will create a PR request and funding of the BPA for review and approval by the Manager of CAP.
   - Once the BPA is established, the O&M Staff use the BPA number to place orders for materials and supplies for their work orders.

4. Additional purchasing option is to establish a contract with the vendor through either solicitation, sole source, multiple quotes depending on threshold in the Procurement Ordinance #108 guidelines.
   a. O&M Staff create a PR in SAP to request CAP in establishing the contract.
   b. CAP establishes a contract with a vendor in SAP and a fully executed signed contract. A Contract PO is established to fund and receive and pay Contract POs on.
   c. Now, O&M staff can contact vendor and provide the vendor the Contract PO number and the receiving is on the Contract PO. This is a purchasing option but not generally done.

- • If there is pricing change throughout the fiscal year, O&M staff will show letters from vendors for price increases to CAP. CAP does an update to the contract with new pricing rate sheet for a contract amendment.
5. Designated Operations Unit and Maintenance Unit staff assigned Agency credit cards (US Bank Procurement Credit Card or Home Depot Credit Cart) may purchase good and materials. CAP administers the Procurement Card and Home Depot Cards Agency programs.

Receiving operational practices for materials and supplies

The Warehouse will receive goods (materials and supplies) only if the staff members order notes delivery to the Warehouse. If they require certain items to be delivered to another location, then it is noted in the PR and will be delivered accordingly. It is the responsibility of those who requested it to be delivered to any other location to do their own individual receiving.

Operations Unit Administrative SAP Receiving

The Operations Unit Administrative staff will on perform receiving for the Ground Water Recharge (GWR), Recycling (RC), office supplies (Staples), and Amazon procurement of materials and supplies.

1. Operations Unit Administrative staff will access SAP and the enter the T-Code MIGO to perform receiving.
2. In addition, they will upload into SAP the supporting documentation (packing slip, good receipt, receipt, or bill of lading).
3. SAP will generate a Goods Receipt and Goods receipt number for each SAP Receiving transaction performed by the Operations Unit Administrative staff.

Maintenance Unit Administrative Staff

The Maintenance Unit Administrative staff will only perform receiving function for other locations RP-1, RP-2, R-P4, RP-5, and CCWRF.

1) Receipt of receiving documentation, bills of lading (BOL), or invoices for vendor payment.
   a. Documentation emailed or hard copy received in the field (RP-1, RP-2, R-P4, RP-5, and CCWRF)
   b. Documentation emailed when received from other facilities
2) Will access SAP to start the process for payment by the Maintenance Administrative Staff by accessing SAP and entering the T-Code MIGO to perform receiving.
3) In addition, they will upload into SAP the supporting documentation (packing slip, good receipt, receipt, or bill of lading).
4) SAP will generate a Goods Receipt number for each SAP Receiving transaction performed by the Maintenance Unit Administrative staff

Home Depot (HD) Card Purchases

Warehouse orders HD, the O&M Department submit their receipts to the Warehouse. If staff purchases HD and turns in their receipt into the Warehouse, it gets received into SAP since this is a BPA. The only HD transactions not received by the Warehouse are Recycled Water (RW)/Groundwater Recharge (GWR), they have their own PO. If any of the BPA/POs are used to purchase items, it is the staffs' responsibility to forward their receipts to either Warehouse or their Department Unit Administrative Staff so they can forward to the Warehouse so that HD purchase transactions can be received in SAP.

Accounting Unit - Accounts Payable

1) As of 2/28/2022, Mailing Processing and invoice intake is done by two Interns. Prior to 2/28/2022, all invoices received by AP are date-stamped (regardless of goods and/or Materials and Supplies):
   - • Hardcopy invoices are date-stamped, scanned daily, and cataloged
   - • Electronic invoices are electronically stamped when received.
2) After the mail is opened or downloaded from email, all incoming invoices are logged on a spreadsheet and the following information is recorded: date received, email or surface (post) mail, vendor name, invoice number, invoice date, and invoice amount.

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 Materials and Supplies invoices, AP will perform the following:

5) invoices: Receiving for material and supplies are generally going to supported by bill of lading/packing slip or in-store receipt, not invoices. Purchasing authorization levels are dictated by Procurement Ordinance No. 108. Additionally, payment request could be for the following transactions for credit card purchases and BPAs. When AP reviews an invoice for signature, AP staff are ensuring acknowledgement of receipt of a service (or goods, sometimes) as noted on the invoice, including the description of the item/service, price, service period, and so forth, as compared to the Purchase Order (PO). The receiver should have the ability to make that determination, so generally it's a department or project manager who signs off on the invoice. Each department has their specific guidelines, workflow, and levels of authorization to confirm receiving. AP staff can identify the signer and know if the signature belongs to someone within the same department (cost center) as the requestor, per the PO, as well as compared to the user who received the item/service in SAP. In practice, seasoned AP staff become familiar with their assigned vendors, how the products or services are used within the Agency, and which departments are placing the orders from that vendor.

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. For existing vendors AP staff need to evaluate the validity of the invoice and ensure we haven't already paid it; so, they will review the payment history.

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 could not find the associated PO related to an invoice, they would attempt to identify who made the order and reach out to that Agency personnel. Also, the AP staff may also reach out to CAP for assistance to see if we have a new vendor not yet in SAP.

8) Starting point for processing Materials and Supplies payments is the Goods Receipt/Invoice Receipt (GR/IR) report in SAP (transaction code: FBL3N, specified layout). The purpose for using this SAP account inquiry screen 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 Materials/Supplies invoices, 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,
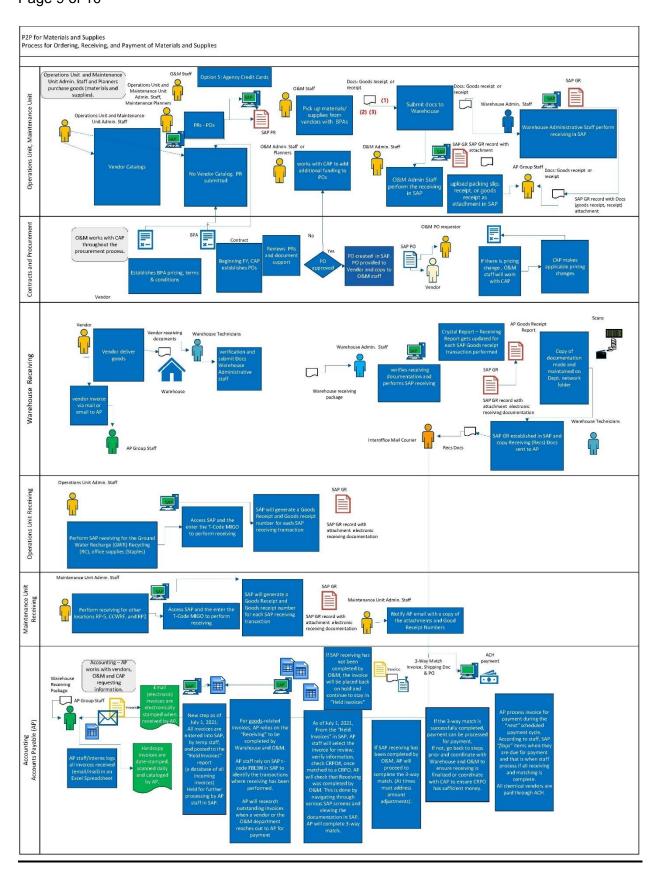
- the approved invoices and packing slip or bill of lading attached during the Receiving process. At this time, AP staff verifies the appropriate approvals have been obtained based on the invoice's dollar amount.

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: Any special notes for Materials and supplies invoices?

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) AP staff (whomever is assigned that week – we rotate this duty) runs the pre-list of items recommended to be processed and sends it to Accounting management for review.
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. Note that Finance staff process the ACH which is then approved online at CBB by Accounting Management. An ACH file is sent to the bank for processing and payment, while physical checks are printed and mailed to the vendors.

Process Flowchart - P2P process for Materials and Supplies

The diagram on the next page provides the overview of the Procure-to-Pay (P2P) process for Materials and Supplies any observations and recommendations identified will be reported in the Final Audit Report.

P2P for Materials and Supplies
Process for Ordering, Receiving, and Payment of Materials and Supplies

For the final audit report, IA will update the list of vendors that have placed the Agency on Credit Hold to include additional vendors, if necessary.

Preliminary Observations:
Based on IA's interim review, below are some preliminary observations:

- Controls may be required to decrease the receiving time into the Agency's financial system,
- Documented SOPs for the receiving function and processing payments,
- Continuous review and close monitoring of purchase orders (PO's) to ensure there is sufficient funding, and
- Key performance indicators (KPI's), goals, and objectives.
- The other units may want to incorporate similar processes as implemented by Operations using iPhone/SharePoint

Additional Audit Procedures In-Progress:
Additional audit procedures to be performed by Internal Audit include:

- Evaluate the timeliness of the receiving process,
- Evaluate the number of invoices processed and paid on time and late,
- Evaluate delays in processing payments, and
- Select a sample of transactions and perform detailed testing.

IA anticipates completing the review of the P2P for Materials and Supplies and present during the September 2022 Audit Committee Meeting.

**Interim Audit Report
Review of Procure to Pay Processes
for Materials and Supplies**

Teresa Velarde

Manager of Internal Audit

June 6, 2022

Accounts Payable Operational & Internal Control Audit
Audit Scope

Audit Objectives:

- Determine whether internal controls, Agency policies, and department-specific standard operating procedures were established and are adequate.
- Evaluate internal controls
- Determine compliance with Agency policies and department Standard Operating Procedures
- Identify operating efficiencies and areas of improvement for P2P processes pertaining to materials and supplies.
- Evaluate the invoice payment processes and operations of the Accounts Payable (AP) Group, within the Accounting Unit related to materials and supplies procured for the Materials Unit and Operations Unit
- Evaluate the timeliness and efficiency of payments for specified materials and supplies vendors for the Maintenance Unit and Operations Unit
- Evaluate the use of technology and reporting tools
- Evaluate the late vendor payments vendors and vendors that have placed the Agency on **Credit Hold** for materials and supplies

P2P Materials and Supplies

Audit Scope:

The scope of the Review of P2P Materials and Supplies is to evaluate the late vendor payments vendors and vendors that have placed the Agency on **Credit Hold** for materials and supplies for the Maintenance Unit and Operations Unit.

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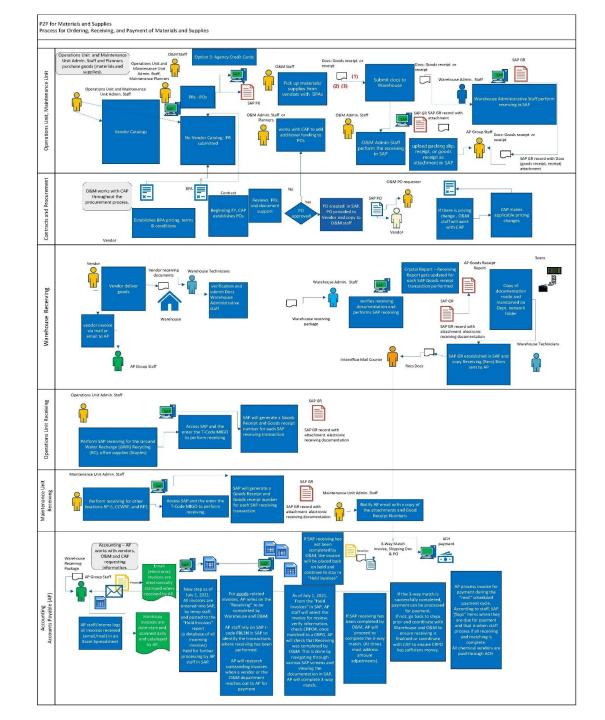
The biggest risk to the Agency is having vendors place the Agency on ***Credit Hold***. A vendor will place their customer on ***Credit Hold*** when they are consistently late in making payments, exceeded their credit limit, and/or identified as a risk. By placing a credit hold on the customer's account,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

P2P – Materials and Supplies

Risks due to Late Payments

- 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 who 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

Flow Chart for the P2P Process for Materials and Supplies

P2P Materials and Supplies

Preliminary Observations:

Based on IA's interim review, below are some preliminary observations:

- Controls may be required to decrease the receiving time into the Agency's financial system,

- Documented SOPs for the receiving function and processing payments,

- Continuous review and close monitoring of purchase orders (PO's) to ensure there is sufficient funding, and

- Key performance indicators (KPI's), goals, and objectives.

- The other units may want to incorporate similar processes as implemented by Operations using iPhone/SharePoint

P2P Materials and Supplies

Additional Audit Procedures In-Progress:

Additional audit procedures to be performed by Internal Audit include:

- Evaluate the timeliness of the receiving process,
- Evaluate the number of invoices processed and paid on time and late,
- Evaluate delays in processing payments, and
- Select a sample of transactions and perform detailed testing

IA anticipates completing the review of the P2P for Materials and Supplies and present during the September 2022 Audit Committee Meeting.

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

Audit Committee

INFORMATION ITEM

2D

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: June 15, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

06/06/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Progress Update for all Procure to Pay Audit Recommendations

Executive Summary:

This is a quarterly update of the 56 audit recommendations provided to-date through the Accounts Payable Operational and Internal Control audits that evaluate the Procure to Pay (P2P) processes for the various Agency departments and processes. The scope of the P2P audits is to evaluate the ordering, receiving and payment processes for the Agency's goods and services and to identify observations and recommendations for improvements to the processes to ensure vendor invoices are paid within the terms and processes are efficient.

To-date, Internal Audit (IA) has completed a comprehensive review of the Procure to Pay Processes of Agency Chemicals (report issued November 24, 2021) and a comprehensive review of the Procure to Pay Processes for Professional Services administered by the Engineering and Construction Management Department (report issued February 24, 2022) and has provided recommendations under each review. Of the 56 recommendations issued through the P2P audits, 20 are now implemented, 23 are in progress of being implemented, 5 require additional time for corrective action and 8 are considered no longer applicable. The attached report provides details of the results. IA will continue to provide quarterly progress updates for all recommendations, including new ones through additional P2P audits.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

Fiscal Impact (explain if not budgeted):

N/A

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

-   -   -

Prior Board Action:

On June 16, 2021, the Board of Directors approved the Fiscal Year 2021/22 Annual Audit Plan. The Plan proposed the various Procure to Pay Audits under the Accounts Payable Operational and Internal Control Audit.

Environmental Determination:

Not Applicable

Business Goal:

The Progress Update for all Procure to Pay Audit Recommendations 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 - Progress Update for all Procure to Pay Audit Recommendations
Attachment 2 - P2P Chemicals Recommendations - Second Update Results & Process Flowchart
Attachment 3 - P2P E&CM Recommendations - First Update Results & Process Flowchart
Attachment 4 - PPT

DATE: May 19, 2022

TO: Shivaji Deshmukh
            General Manager

FROM: Teresa V. Velarde
            Manager of Internal Audit

SUBJECT: Progress Update for all Procure to Pay Audit Recommendations

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) is providing a quarterly update of fifty-six (56) audit recommendations provided in the Review of Procure to Pay Processes for Chemicals, dated November 24, 2021, and the Review of Procure to Pay Processes for Engineering & Construction Management, dated February 24, 2022. The quarterly progress 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 scope of the original audits was to evaluate the ordering, receiving, and payment processes for the Agency's goods and services and identify observations and recommendations for improvements to the processes to ensure the vendor payments are paid timely and within terms. The purpose of the quarterly progress reports is to provide an update of the implementation status of the original 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 reports, goods and services purchased by the Agency are considered critical to the wastewater treatment process because of public health regulatory requirements and critical to the business initiatives of the Agency. The original audits evaluated the controls and processes in place to ensure goods and services are ordered, delivered, received, and paid for, in a timely manner, while following approved procurement processes. 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.

Water Smart - Thinking in Terms of Tomorrow

To date, IA has completed the following Procure to Pay (P2P) audits:

- Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Chemicals, dated November 24, 2021. This audit provided thirty-five (35) audit recommendations. Presented and discussed during the December Audit Committee meeting.

- Accounts Payable Operational and Internal Controls Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management, dated February 24, 2022. This audit provided twenty-one (21) audit recommendations. Presented and discussed during the March Audit Committee meeting.

The breakdown of the number of recommendations provided to each department is noted in the chart below with a current status for each recommendation. The attached reports, provide a detailed list of all recommendations, noting the departments responses, planned date for implementation and IA notes/comments related to the responses and proposed plans by the departments and the final disposition for each.

P2P CHEMICALS - 2ND UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Recommendations	Results after approximately 150 days, since the date of the original audit report (Nov 2021):
Operations & Maintenance	11	1	0	4	16	94% Implemented/Addressed 6% (1 of 16) Require Implementation
Contracts and Procurement	4	0	0	1	5	100% Implemented No outstanding recommendations
Accounting	1	11	1	1	14	14% Implemented/Addressed 86% (12 of 14) Require Implementation
Total Recommendations	16	12	1	6	35	

P2P - P/S E&CM - 1ST UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations	Results after approximately 60 days, since the date of the original audit report (March 2022):
Engineering & Construction Management	2	4	0	1	7	43% Implemented/addressed 57% (4 of 7) require Implementation
Contracts and Procurement	2	0	0	0	2	100% Implemented No outstanding recommendations
Accounting	0	7	4	1	12	8% Addressed 92% 11 of 12 require Implementation
Total Recommendations	4	11	4	2	21	

Of the 56 recommendations:
- **20 are now Implemented**
- **23 are in progress of being implemented**
- **5 require additional time for corrective action (Not Implemented)**
- **8 are considered no longer applicable**

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

- CAP has implemented the remaining six (6) audit recommendations. Recommendations suggested that CAP to reach out to the departments to work

closely with them to gain a clear understanding of their unique procurement requirements and to provide additional training, guidance, and assistance to ensure the transactions follow the Agency's P2P process. CAP has had multiple meetings with Operations & Maintenance(O&M) and Engineering & Construction Management (E&CM) and has provided guidance and awareness of the various procurement instruments and monitoring reports (Contracts and PO). Additionally, CAP hosts a virtual Q&A session each month called CAP Café and attendees can ask questions, request guidance, assistance, and discuss any unique issues. Lastly, each month, CAP staff send via email to all Agency staff a list of Tips and Tricks related to SAP navigation and transactions. The additional outreach efforts have provided valuable and useful information for all users.

- The E&CM Department took the lead to evaluate their internal metric of fourteen (14) days to determine the best goal that allows Accounting sufficient time to process the invoice payment. E&CM took worked closely with Accounting and CAP to evaluate options to ensure vendor invoices are returned to Accounting within the set internal goal/timeline of fourteen (14) days and will work with CAP to determine if invoice terms can be extended for future contracts.

- The E&CM Department is working on documenting Standard Operating Procedures for processing invoices and pay estimates and plans to have final versions by June 30, 2022. Additionally, E&CM plans to provide training on the new procedures once they are documented. IA will follow up on this item during the next progress update.

- The O&M Department took the lead and they worked closely with Information Technology and implemented IAs recommendations related to leveraging the various technologies and tools already available to expedite the receiving process for chemical deliveries. Specifically, the O&M Department, for all plants, are now 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 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 five to seven (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 twenty-three (23) days. With this shortened receiving time frame, it will allow the Accounting Unit the remaining twenty-three to twenty-five (23-25) days of the month to process timely payments for Chemical vendors. The Strike Team continuously reviews the performance, and the results are positive.

- The O&M Department finalized and documented a Department Standard Operating Procedure that documents the process for performing the receiving function and for monitoring the related Purchase Orders.

- 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 Standard Operating Procedure to document the many processes involved with processing timely payments, including reviewing, matching, and processing for payment. Accounting is exploring the option of using a consultant to draft the SOP. 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 matrixes provide a status for each of the fifty-six (56) recommendations. Also, included are the corresponding process flowchart.

For additional details related to background, findings, and recommendations, IA refers readers to the original audit reports, received and filed by the Board of Directors:

- Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Chemicals, dated November 24, 2021.

- Accounts Payable Operational and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management, dated February 24, 2022.

The reports can be accessed through the Agency's intranet website or requested from the Manager of Internal Audit. IA will provide another progress update in September 2022.

Acknowledgements
IA would like to extend our appreciation to the Engineering & Construction Management, 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 Progress Update for all Procure to Pay Audit Recommendations 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.

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		This recommendation was deemed no longer applicable during the prior status update.
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		This recommendation was deemed no longer applicable during the prior status update.
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				This is fully implimented. Staff is using OneDrive to upload BOLs to AIM.	Per staff, the new OneDrive upload of delivery documentation has been rolled out to all facilities. Staff is also working closely with other departments to implement the new process for chemical receiving.Staff will provide an updated metric report "GR Recieing and Invoice Payment Tracker" to show the differences in the time it took to receive items. Operations goal has been to receive within 5-7 days.
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				The electronic copies of the BOLs are stored in AIM. Hard copies are stored onsite for 1 year and are put in the shred bin on a rolling year calendar timeframe.	This recommendation is considered implemented based on the response and new process implemented. Also, see comment in #3.
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				This is fully implemented. Staff is using OneDrive to upload BOLs to AIM.	This recommendation is considered implemented based on the response and new process implemented. Also, see comment in #3.
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				This is fully implimented. Staff is using OneDrive to upload BOLs to AIM & Admin Assistant is utilizing AIM to upload the BOLs to SAP.	This recommendation is considered implemented based on the response and new process implemented. Also, see comment in #3.
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				This is fully implimented. Staff is using OneDrive to upload BOLs to AIM.	This recommendation is considered implemented based on the response and new process implemented. Also, see comment in #3. Have a significant number of emails been reduced or eliminated to communicate receiving to AP and between Operators and Admins with copies of documents? Per Bonnie - doesn't get staff emails unless it is something else that is needed. Per Bonnie, she reduced by about 150 emails a month. email correspondance to Acct. per Connie, doesn't want any emails unless it is something old and still cleaning up.
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				Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	As of 4/26/2022 the department has documented SOP #2022-1 Migo Receiving Chemicals and SOP #2022-2 OneDrive Chemical Receiving to address receiving . Staff have also met with CAP staff to evaluate efficiencies with setting up and charging to the correct POs.
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				Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	As of 4/26/2022 the department has documented SOP #2022-1 Migo Receiving Chemicals and SOP #2022-2 OneDrive Chemical Receiving to address receiving . Staff have also met with CAP staff to evaluate efficiencies with setting up and charging to the correct POs.
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				Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	Staff indicated that training on the BOL upload process has been in person and sometimes one-on one. Staff plans to providE continous training to ensure all staff is able to perform the processes documented in the SOPs. As of 4.26.22, staff indicated that Annual Referesher Training is scheduled on all calendars for March 2nd of each year.
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				Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	Recommendation is considered Implemented. The method documented in the SOPs is the new/updated streamlined process. Currently, there are approximately 4 admins that perform the receiving. One main person, a back up and several specialized at different facilities or departments. Receiving is performed consistently throughout the week. As of 4/26/2022, two SOPs have been documented (see Reco #8 & 9 above) and training has been provided and is scheduled. The department has evaluated all recommendations and have developed their own efficient methods and have documented a more streamlined approach to ensure receiving is completed within a few days of chemical delivery.
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			In process. Final should be completed by end of May.	Recommendation is considered In Progress. Metrics have been established, staff continues to work to improve the measurement report and working to document goals. Planned for implementation by 5/4/2022.
13	Operations working AP	Consider eliminating the receiving function before issuing payments for chemicals, so that AP process payments without waiting for the receiving function. Determine the feasibility to reconfigure and implement the change in SAP. Determine how the "after the fact" reconciliation of receiving documents to POs and invoices will be completed to ensure proper oversight is performed. Assess the benefit, impact, and the risks of eliminating the best practice internal control of performing the receiving before the 3-way match and the payment are issued.				X		This recommendation was deemed no longer applicable during the prior status update.

Reco #	Dept(s). taking the lead	Recommendation	Implemented	In Progress	Not Implemented	No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
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				CAP has on-going/regular biweekly meetings with O&M to discuss all procurement topics. CAP continues to be available to discuss all Procurement-related topics with O&M, CAP facilitates discussions during various forums including CAP Café, Tips and Tricks and other meetings. CAP will reach out to O&M to facilitate a discussion and offer any assistance, awareness and information about planning and setting up PRs. Things to discuss will include: total budget for chemical purchases, cost centers, GL, PR, line items - one for each facility, FY amounts, contract pricing, quanties, pricing, budget blocks, and timeliness of amendments and PRs, etc. with the goal of anticipating and eliminating budget blocks and late payments.
On 4/19/2022 CAP met with O&M staff to discuss the department's budget process, the comment below provides a summary of the items discussed and continued, planned discussions between CAP and O&M:
The budget preparation includes significant discussion with various staff. It includes looking at the usage from the past year, the projections associated with flows, required dosages, the weather, the contact terms, equipment shutdowns, repair projects, and other factors.
Once O&M determine what the anticipated annual budget is for the chemical and facility, O&M staff identifies the contract terms (pricing, increases, expiration dates) and establishes a value for the PR. That amount can be the anticipated annual amount divided by 12 months, and then multiplied by the time-period associated with the contract terms. Staff additionally identifies a contingency factor of up to 20% for the PR. This is done so that they don't commit the full budget on the first PO, as they will be creating new PRs and Pos whenever there are price changes so that the receiving can be completed against new budget lines in the PO. This is more efficient then adding new lines to a PO creating confusion on which is the appropriate line.
With the reorganization aligning Operations under one manager, the breakdown will allow more efficient management of the chemical budget and purchase orders.
CAP & O&M also discussed potential ways to amend the PR/PO line items to potentially simplify the calculation process for receiving. These are things the two departments are exploring and will continue to discuss.	IA considers this recommendation Implemented. The intent of the recommendation was to provide the observations and findings noted duirng the audit and encourage the departments to discuss potential operational efficiencies in the P2P process, specifically as they relate to budgeting, setting up PRs and charging against the established PRs with the goal of assistin in the process and working together to ensure opportunities and ideas that ensure vendor payments are received timely and efficiently without delaying the payment process. Based on the comments provided, IA determines that that departments are aware of the potential concerns or delays and will continue to discuss and work together to make the process more efficient.
15	O&M working with CAP & Acct	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				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.	Per staff, the reorg is helping the PR process as seem to be approved faster. With the reorg there will be a reduction in POs in the new FY and this too will help the process. Staff indicated that CAP have been helpful and responsive with questions. MPR bi-weekly meetings and CAP Cafe provide a good resource.
As of 4/26/22 Operations and CAP have met to discuss the needs of the department with the several PRs and how the budget is planned/used. These discussions have provided insight as to the departments needs, as well as information to ensure Operations is using the most efficient method to set up POs. CAP has been in continuos communication with the department through various forums and by reaching out. Also see responses by CAP to #16 and #17 below. IA suggests Operations continues to work and communicate with CAP regarding their procurement needs and ensure there are trained individuals to the administrative assistant.
16	CAP working with O&M	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.
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.				X	this recommendation is being deferred to O&M to address with the implementation of Reco #15 and #18. No longer applicable to CAP.	IA defers this recommendation to O&M as it is being addressed through their implementation actions under Reco #15 and #18.
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				CAP has done this through their discussions during CAP Café - demonstrated how to run by cost center and what to manage, the report is also sent once a month.	IA considers this recommendation implemented through the implementation of the CAP Café, Tools and Tricks and other on-going department meetings. IA suggest CAP maintain metrics such as number of meetings, employees reached/attended and others for these trainings provided.
18	O&M working with CAP and Acctng	CAP and Accounting should assist O&M in documenting proper SOPs for funding POs.				X	Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	As of 4/26/2022 the department has documented SOP #2022-1 Migo Receiving Chemicals and SOP #2022-2 OneDrive Chemical Receiving to address receiving . Staff have also met with CAP staff to evaluate efficiencies with setting up and charging to the correct POs. See also #8 & 9 above and CAPs responses in # 17, 19 and 20 to providing information, assistance and updates and having discussions with the user department. It has been determined that a separate SOP for funding POs is not needed only ongoing communication between Operations and CAP. IA suggests Operations continues to work and communicate with CAP regarding their procurement needs and ensure there are trained individuals to the administrative assistant.
19	CAP working with O&M and Acct	CAP & Accounting should assist with providing periodic training to O&M on properly funding POs.	X				This recommendation is addressed with Reco #14 and #17 above.	IA considers this recommendation implemented through the implementation of the CAP Café, Tools and Tricks and other on-going department meetings. IA suggest CAP maintain metrics such as number of meetings, employees reached/attended and others for these trainings provided.
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				This recommendation is addressed with Reco #14 and #17 above.	IA considers this recommendation implemented through the implementation of the CAP Café, Tools and Tricks and other on-going department meetings. IA suggest CAP maintain metrics such as number of meetings, employees reached/attended and others for these trainings provided.
21	Acctg working with O&M & CAP	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.
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.		X			**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.
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.
This process will be integrated into the SOP of the department (see also recommendation 26 regarding creation of SOPs.)
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.	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.
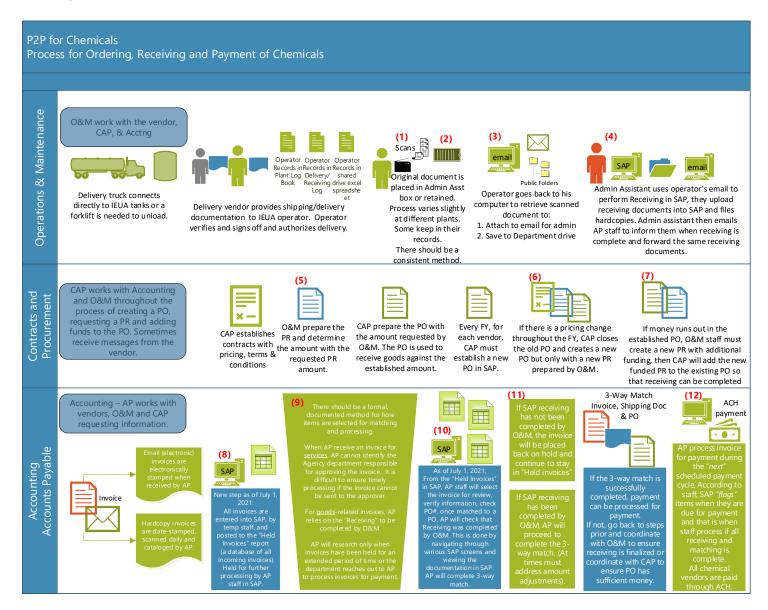
Reco #	Dept(s). taking the lead	Recommendation	Implemented	In Progress	Not Implemented	No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
22	Acctg working with BIS	Accounting work with BIS to determine if there is an existing report 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		This recommendation was deemed no longer applicable during the prior status update.
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, priory 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 managemetn 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 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.
24	Acctg	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. AND Accounting should formalize and document specific procedures for how items are selected for matching and processing for payment before the due date. Specify the action steps, AP should take when items are approaching the due date or are past the due date, and how to elevate items for prompt research and attention.		X			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.) 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.	IA considers this recommendation Not Implemented. The recommendation states to formalize and document specific procedures for how items are selected for matching and processing for payment before the due date. Is there a planned date for implementation of a formal procedure for matching and process payments? Will the procedure specify the action steps 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. **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. Based on the response provided on 2/17, this recommendation will be considered In Progress, pending documentation of formal SOPs.
25	Acctg	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.		X			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). A*ccounting 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. 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.*	IA considers this recommendation Not Implemented. 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. 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? **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?** **2/17/22: Per response, this recommendation will be considered In Progress due to on going discussions, and until full implementation is complete.**
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			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. 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.	IA considers the recommendation In Progress until the SOP is fully documented, finalized, distributed to staff for training. 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.

Reco #	Dept(s). taking the lead	Recommendation	Implemented	In Progress	Not Implemented	No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
27	Acctg	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.			X		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. 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.	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					This recommendation was deemed implemented during the prior status update.
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			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.	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? 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.
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 withing 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 withing 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				Draft SOP completed and in review. Anticipate final SOPs to be completed by end of April.	SOP's as noted above in #8 and #9 above have been finalized and implemented. Formal KPIs, goals and objectives are planned for implementation by 5/4/22 and will be addressed by Recommendation #12 above. IA considers this recommendation implemented because SOPs have been finalized, a timefram for receiving has been established and all recommendations are being addressed. IA suggests Operations continues to work and communicate with CAP regarding their procurement needs and ensure there are trained individuals to the administrative assistant.
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.
35	**Total Recommendations**		**16**	**12**	**1**	**6**	**35**	

P2P CHEMICALS - 2ND UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Recommendations	Results after approximately 150 days, since the date of the original audit report (Nov 2021):
Operations & Maintenance	11	1	0	4	16	94% Implemented/Addressed 6% (1 of 16) Require Implementation
Contracts and Procurement	4	0	0	1	5	100% Implemented No outstanding recommendations
Accounting	1	11	1	1	14	14% Implemented/Addressed 86% (12 of 14) Require Implementation
Total Recommendations	16	12	1	6	35	

Procure to Pay Process for Chemicals

Documented by Internal Audit Department

This flowchart represents the process at the time of the original review and before the internal audit recommendations were implemented.

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

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.

Operator Records in Plant Log Book

Operator Records in Delivery/ Receiving Log

Operator Records in shared drive excel spreadsheet

(1) Scans

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

(4) SAP — email — 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.

Invoice — Email (electronic) invoices are electronically stamped when received by AP.

Hardcopy invoices are date-stamped, scanned daily and cataloged by AP.

(8) SAP — 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) SAP — 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).

3-Way Match Invoice, Shipping Doc & PO

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) ACH payment

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.

| 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	E&CM	The E&CM Department management: Finalize and update the SOP by documenting, signing, sharing with staff, and providing training. 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.		X			There is an outdated SOP for processing invoices and pay estimates. Currently, the drafted updated document is under review. The final document is expected to be signed and finalized by June 30th, 2022.	Please forward the completed SOP to IA once it is finalized. IA suggests you place it on a shared drive or on you website on AIM for all your staff to access. IA will follow up in July.
2	E&CM	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. 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. 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		X			E&CM has reviewed the current report they utilize with CAP, and both departments along with BIS have found that the report that E&CM currently meets the needs required by the department. No new reports will be made for the trackign of these contracts. **BIS was going to look into seeing if they could generate a report for us utilizing the informaton.I need to follow-up with Kanes.**	IA will follow up on any progress sometime in July.
3	E&CM	The E&CM Department management should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.		X			E&CM has a full training plan that was implemented in February 2022 and will go through until 2023 to cover new and older topics with the department. (*attachment to training plan**)	Recommendation will be considered in progress until #1 is implemented - the SOP is finalized and shared with staff. Did you meant to attach a training plan? Not attached to email. IA will follow up in July.
4	E&CM	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		X			KPI Metric will be included in the SOP to fomalize the process. **BIS was going to look into seeing if they could generate a report for us utilizing the informaton.** I believe AP and BIS are working an a new system. I will need to follow up on this item with Deborah and Kanes. **	Recommendation will be considered in progress until #1 is implemented - the SOP is finalized and shared with staff. IA will follow up on the progress sometime in July.
5	E&CM	The E&CM Department work closely with Accounting Unit to determine if the fourteen (14) days to turn around 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.	X				E&CM spoke to CAP and AP regarding this time frame. E&CM needs 14-days to go through the internal approval and processing side of an invoice. AP would like more time, so potentially CAP and E&CM can work on extending out invoice terms on new contracts going forward.	IA will consider this recommendation fully implemented. E&CM coordinated with Accounting and CAP to evaluate options and preferences and you have determined what will work best for your department. Keep in mind the payment terms when negotiating contracts so as not to delay payment processing by Accounting.
6	E&CM	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.				X	** I believe AP and BIS are working an a new system. I will need to follow up on this item with Deborah and Kanes. ** The second area, AP has requested that we no longer let them know that receiving is final. They run a report off of all receivers. ** E&CM to discuss with Audit.	This recommendation will be considered No Longer Applicable for E&CM since Accounting and IT are working together on this item.
7	E&CM	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. 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. 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.	X				E&CM utilized Policy A-50 for approval levels along with internal necessary approvals. These are utilized to verify that the invoice is accurate, since management of the department doesn' thave the intimate details of billing that the Project Manager has on a project. E&CM reviewed and have chose to stay with the current method.	This recommendation will be considered fully implemented. E&CM took the time to evaluate the costs/benefits of their internal controls of multiple signatures and evaluated the 14 day timeframe to turnaround the approved invoice to Accounting and with Accounting's and CAP's involvement have determined that the benefit of the various signatures is a necessary internal control for the approval of the invoices. Accounting and CAP are both aware of this. E&CM will work with CAP to extend payment terms with vendors for future contracts. This item is consiserd now closed.
8	CAP	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. 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.	X				CAP continues to work closely with the department and believes the E&CM Department manages their POs and project expenses well. CAP continues to be available to provide any needed information or training if called upon as well as during CAP planned training events. E&CM staff continues to attend the CAP training events and have a monthly scheduled meeting to address procurement-related topics.	IA considers this recommendation to be Implemented per the discussion with CAP and comments provided and per audit observations. IA encourages and suggests CAP continues to do all the new things they have implemented with CAP Café, Tips and Tools, surveys, etc.
9	CAP	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. 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.	X				CAP facilitates CAP Café, sends out the Tips and Tools and hold periodic meetings with E&CM and other departments individually to provide information and training on any specific department needs. CAP is also evaluating the recent survey response to evaluate the needs of the users. Also see response above, CAP believes E&CM monitors their contracts and POs appropriately and does not feel the need for additional training/meetings at this time.	IA considers this recommendation to be Implemented per the discussion with CAP and comments provided and per audit observations. Additionally, E&CM is taking the lead to reach out to CAP to discuss additional P2P related topics.
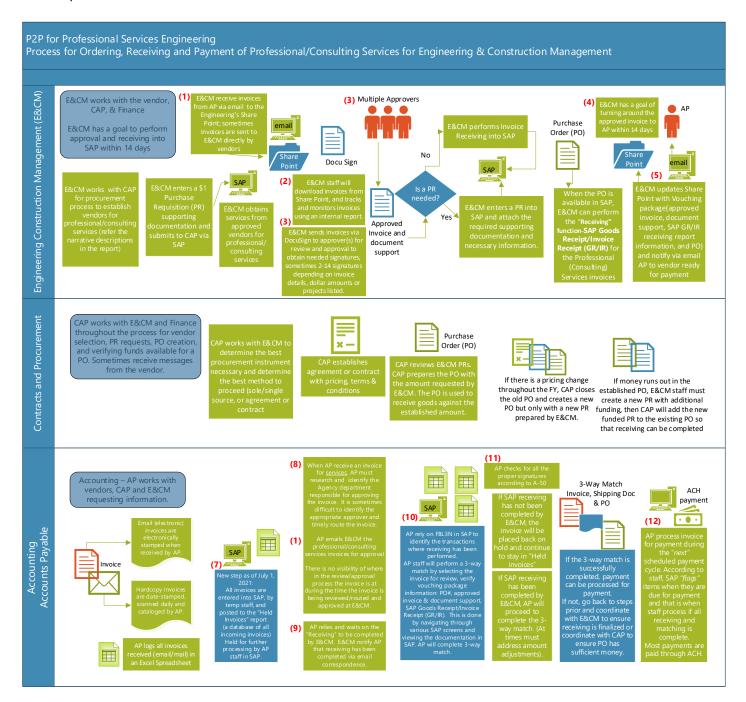
Reco #	Dept(s). taking the lead	Recommendation	Implemented	In Progress	Not Implemented	No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
10	ACCT	The Accounting management evaluate and make necessary updates to its internal processes 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. 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. 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.			X		The Agency is currently in the process of evaluating technology solutions to improve the visibility of incoming invoices, as well as possibility of creating workflow to distribute and approve invoices. BIS has been coordinating these efforts. Last demo held on 4/5/22; next scheduled for 4/18/22. Accounting and Finance Management meets with E&CM monthly to, amongst other topics, review issues with payments to vendors. The last meeting was on 3/29/22. Additionally, the Supervisor of Engineering Services and the Accounting Supervisor do share lists of vendors used by E&CM, as well as lists of invoices received in AP. As part of review of these recommendations, EN&C staff met with Accounting Management, as well as CAP and IT staff on 4/6/22 to review possible areas of improvement for the P2P for services.	Per Accounting's response, Accounting plans to move forward with implementing a new technology solution to improve uploading invoices received. This will be an on-going, long term project to address the recommendation. In the meantime, to address the recommendation based on the current/existing practices, Accounting will continue to use current processes to receive and forward invoices. No changes to current practices are planned? The recommendation suggest to: *evaluate an update internal processes to immediately send the invoice to the department, *to work closely with E&CM to keep a reference list of the professional/consulting service vendors, including continuous communication, and *to track the service invoices. Accounting did not respond to these items in the recommendation. The response indicates that the plan is to work on implementing new software. If Accounting disagrees with the recommendation, please indicate so. As of 4/18/22, based on the response proviced, this recommendation is considered Not Implemented, pending full implementation of new software.
11	ACCT	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. (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). New Recommendation: The Accounting management should determine how this new reporting/monitoring tool (information from the Held Invoices) will be used and implement a procedure to assist with tracking, monitoring and prioritizing making timely payments.			X		Accounting now has the ability to export data on held invoices in SAP (via the MIR6 transaction) into Excel. This has been helpful when researching the status of a payment. Additionally, the Interns that joined Accounting as of 2/28/22 are now trained on mail processing / invoice in-take process, and have been maintaining the invoice log. This log records all invoices that come into Accounting, either by email or post mail. However, we continue to struggle with visibility of all incoming invoices, and are looking into additional technology solutions as noted above (see recommendation number 10.) Pending the Agency possibility purchasing an external solution, we have held off on creating any additional reports. Further, any reports derived from the data in SAP will not capture the non-PO invoices. Accounting many times is not aware that a non-PO purchase has been made, and therfore has no way of knowing there is an invoice outstanding until it arrives in Accounting. We would like to see adherence to the Agency's Purchasing Ordinance by all Agency staff, so that the vast majority of all purchases are made using a PO *(note this is not specific to services, but is an issue with various types of purchases.)*	The recommendation states that Accounting should determine how to use the MIR6 export into excel and determine how it will be used for tracking, moniotring, prioritizing and making timely payments. The recommendation suggest to document thiis iinot a procedure to assist with consistency of this process. The recommendation was not addressed. This recommendation is considerd Not Implemented. The response provides information on: 1. the mail processing/ invoice in-take process, 2. invoice log (in addition to the Invoice Held screen), 3.evaluation of technology solutions to assist with visibility of all incoming invoices, 4. Non-PO invoices and transactions, 5. Procurement Ordinance adhearance. However, the recommendation is suggesting Accounting document a methodology/procedure for how it intends to use the MIR6 information to review, track, and monitor invoice due dates and open invoices and prioritize payments. Since this step was not addressed, the recommendation is considered Not Implemented. If Accounting does agree with this recommendation, please indicate so and why.
12	ACCT	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.		X			Accounting concurs with this recommendation and is currently working with IT staff to determine feasibility. (See also recommendation 10 above.) Note too that if such a solution is purchased, we will need to revise any relevant SOP related to vendor payment processing.	IA has participated in some of the meetings and demonstrations regarding software solutions for invoice recognition. This recommendation is considered In Progress.
13	ACCT	It is recommended that the Accounting management: •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 Concur for invoice process and management.		x			Accounting does not believe that the variability in the time it takes to process one vendor payment vs another is an indication of poor internal controls, but instead is the nature of processing a variety of types and complexity of invoices, as well as other factors that determine the time it takes to perform the 3-way match. An external technology solution may assist in the efficiency of the matching process, as well as AP's ability to more quickly follow-up on issue or outstanding items preventing payment processing. Accounting is currently working with IT to explore options. (See recommendation 12 above.) While the statistics noted in the observation do not align to historical trends noted when data is pulled directly from SAP (using the FBL1N transaction), it is known that vendor payments aren't being processed timely. However, there are many factors, as evidenced by the recommendations in this report to departments throughout the Agency, not just Accounting, that influences the timeliness of vendor payments. Using transactional data pulled from SAP directly (again, via FBL1N), after each payment run (at least weekly) Accounting Management (Deborah / Javier) look at the payments that were paid significantly late (over 60+ days) to analyze the cause of the delay to identity possibly process improvement opportunities. These issues and possible preventive solutions are discussed with the Accounting Supervisor during weekly meetings. We do not agree that creating a separate tracking for "invoice issues" is an efficient way to monitor vendor payment processing. Instead, on an ongoing basis, as part processing payments, AP staff follow-up on issues that are preventing invoices from being processed. The Accounting Supervisor reviews open invoice issues on a daily basis through monitoring the APGroup email, the GR/IR report (FBL3N screen for account 200900), as well as through communication with AP and other Agency staff.	The recommendation is suggesting controls to improve how invoices are selected to be matched and processed for payment. "Controls" include anything related to a process/procedure. IA has not been provided with any documented procedures for how the department selects and processes matching and payments. The recommendation is encouraging and suggesting that the department work to * formalize a procedure/process to track all open invoices, *formalize a procedure/process to review open invoice issues by a supervisor at the end of each month to ensure that anything that is due and was not processed for payment is addressed and follow up on, *work with IT to determine a more efficient process within SAP to verify that any items pending receiving are addressed/resolved so that they are paid timely, and to *utilize SAP to manage invoices, which includes continuously reviewing invoices that are due and require receiving and to ensure there is a process in place to follow up. Per the response provided, the recommendation is considered In Progress, until the department documents/implements a SOP for reviewing, monitoring invoices.
14	ACCT	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 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. 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. 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.		x			Accounting concurs with the recommendation and is currently working with IT to evaluate possible technology-based solutions to assist with the routing of invoices. (See recommendation 10 and 12 above.)	Per Accounting's response, Accounting plans to move forward with implementing a new technology solution to improve uploading invoices received. This will be an on-going, long term project to address the recommendation. This recommendation will be considered In Progress.
15	ACCT	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). 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. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-five (25) currently In Progress.)		X			Accounting's goal is to pay invoices as close to but not after the due date, in accordance with the payment terms agreed to with vendor (generally net 30.) To accomplish this, any payment that is currently due, will be due within 5 days, or is past due should be selected for payment. Accounting met with IT staff and determined the current set-up in SAP allows for flexibility of payment date range. AP staff will be directed to select the date range that will flag items due within 5 days or sooner of the next pay run. This process will be outlined in any related updated desk manuals or SOPs. Further, Accounting Management will review how to make the correct date selections with the Accounting Technicians at the meeting on April 19, 2022.	Please provide an update on the meeting on 4/19/2022, were staff trained and do they understand how to implement this new process? Also, please provide an update on the documented/formal SOP to determine if this process will be included in the SOP. IA can assist in reviewing a draft of the SOP. IA can also test the timeliness of payments during a future review if requested. This recommendation is considered In Progress

Reco #	Dept(s). taking the lead	Recommendation	Implemented	In Progress	Not Implemented	No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
16	ACCT	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 communication for invoice management.		X			For purchases that follow the P2P procedures, including requesting items via a PR/PO, AP staff can see if the receiving is completed by viewing transactions posted in the 200900 account, via the FBL3N transaction in SAP. As such, it should not be necessary to email Accounting when receiving is completed. However, that does not apply to purchasing that circumvents the P2P process and there is no PO. In such cases, the purchaser will email a signed copy of the invoice, and/or other receiving support, to the APgroup email. To help separate the "noise" that comes into the APGroup email (such as vendor advertisements), as well as help isolate the vendor invoices that are coming via email vs internal communication, Accounting is looking into setting up an additional AP email address for internal communications. This will allow the Interns to focus on the incoming invoices in the APgroup email and vendor inquires, while the internal email can be used to for communication with the Account Technicians to follow-up on issues as well as a place to receieve non-PO invoices and support. We anticipate implementing this new email within the next month (pending request to IT, as well as notification to Agency staff.)	Quick follow up question - Does E&CM understand when to send an email to informa that receiving was done and when not to? Suggest there is a discussion on this to inform the department. IA will consider this recommendation In Progress until this information is clarified between both departments and/or when the secondary email is set up if that is the direction the department will go.
17	ACCT	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. (Note: This is recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-six (26)).		x			Accounting has gathered a variety of existing "desk manuals" as well as other processing notes and instructions, that in total comprise of the SOPs over AP. Due to resource constraints we have not yet finalized an updated SOP. We are additionally looking to utilize an external consultant used by other department to formalize these written procedures into a formal SOP (see recomendation 20.) It is also noted that if the Agency elects to implement a new technology solution (see recommendation 12), we'll need to revise the SOPs and desk manuals, as well s train AP staff. Therefore, especially given limited resources and priority of getting back-log of late invoices processed, as of April, 2022 we have paused working on the SOPs.	Per the response provided, this recommendation is considered In Progress pending full documentation of the department SOP and formalizing a procedure to address how staff select how, what and when to complete the 3-way match and processing of payments and also pending the final implementation of new software solutions. This recommendation is similar to Recommendation #13 above suggesting there be a formal procedure to ensure invoices are reviewed, tracked and monitored to ensure all open items are addressed/processed.
18	ACCT	The Accounting should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-seven (27)).		x			The Accounting team onboarded 3 additional staff members recently; 2 Interns began on February 28, and 1 Accounting Technician began on March 4, 2022. The Accounting Supervisor along with more senior AP staff provided on the job training. New staff were provided a binder that includes relevant desk manuals and procedural notes, as well as were instructed on how to find these resources in digital format either on the shared network drive or via the Agency's intranet (AIM.) On March 28, 2022, the AP staff, Accounting Supervisor, and Controller participated in a training facilitated by IT staff (Rose) covering basic navigation in SAP, placing an invoice on hold in SAP, along with navigation through the billing screens. If the Agency decides to implement a technology solution (see recommendation 12), SOPs, the various desk manuals, and procedure write ups will need to be updated. Then	Per the response provided, this recommendation is considered In Progress pending full documentation of the department SOP.
19	ACCT	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. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-nine (29)).			X		As of April, 2022 the Accounting Group is still not fully staffed, with 2 additional Accounting Supervisor positions currently in recruitment. The additional Supervisors will allow redistribution of work, especially for the Accounting Supervisor over the AP team. We believe these additional staff will help improve the operation of the AP unit both directly and indirectly. Once we have the team in place specific KPI's for staff will be established. The AP unit is processing current invoices, as well as catching up on the backlog of old invoices and other payment requests caused by understaffing for the last 9 months. It is difficult to assess the proper KPIs for things such as volume goals or time to process payments while the team is still functioning under these handicaps. However, Accounting Management continues to look at payment trends each week by extracting data from SAP (via FBL1N) and using it to inform decisions about future KPIs. The overall goal for the AP team is to pay invoices as close to the due date as possible, but not after the due date. More so, the goal is first to eliminate any outstanding invoices that are greater than 90 days. Form there the focus will be 60 days, until we are paying all invoices within 45 days, with the goal of no later than the due date (generally, net 30.) Discussions about specific measurements are ongoing and any metrics would need to be adjusted if the Agency decides to implement a technology solution that changes the process for paying invoices (see recommendation 12.)	This recommendation is considered Not Implemented. IA suggests Accounting work with the Leadership Team, AGM and GM to determine appropriate overall, Department- specific KPIs, goals and objectives and to look at industry best practices and similar organizations for ideas regarding appropriate goals/objectives and KPIs for similar Accounting departments.
20	ACCT	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, and/or 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.			X		Accoutning management is exploring the use of a consultant used by other Agency department to formalize the SOPs. Note: We are holding off on moving forward with this contract until we have more infomaiton about implmentaing a technology soluation that would change processes.	This recommendation is considered Not Implemented at this time. This recommendation will either end up being Implemented or No Longer Applicable pending final decision to either move forward or not with a consultant to assist with all accounting functions and develop KPIs, procedsses, procedures, implement recommendations, etc. not just a consultant to document SOPs.
21	ACCT	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.				X	Internal controls over purchases with a PO (i.e. the "regular" P2P process) are covered in of the Agency's Procurement Manual; Section 2.3.A outlines the authorization levels. Any updates to the Procurement Manual should be lead by CAP, as they are responsible for administration of Agency purchasing.	IA to discuss with CAP and CAP, ACCT to determine where this falls. IA suggests both departmetns coordinate and work together, the policy does require it be updated. This recommendation is No Longer Applicable and IA will defer to the P2P P&R audit for CAP to take the lead on

21 Total Recommendations **4** **11** **4** **2**   **21**

P2P - P/S E&CM - 1ST UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations	Results after approximately 60 days, since the date of the original audit report (March 2022):
Engineering & Construction Management	2	4	0	1	7	43% Implemented/addressed 57% (4 of 7) require Implementation
Contracts and Procurement	2	0	0	0	2	100% Implemented No outstanding recommendations
Accounting	0	7	4	1	12	8% Addressed 92% 11 of 12 require Implementation
Total Recommendations	4	11	4	2	21	

Procure to Pay Process for Professional Services Administered by Engineering
Documented by Internal Audit Department
This flowchart represents the process at the time of the original review and before the internal audit recommendations were implemented.

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

Engineering Construction Management (E&CM)

E&CM works with the vendor, CAP, & Finance

E&CM has a goal to perform approval and receiving into SAP within 14 days

E&CM works with CAP for procurement process to establish vendors for professional/consulting services (refer the narrative descriptions in the report)

E&CM enters a $1 Purchase Requisition (PR) supporting documentation and submits to CAP via SAP

E&CM obtains services from approved vendors for professional/consulting services

(1) E&CM receive invoices from AP via email to the Engineering's Share Point; sometimes invoices are sent to E&CM directly by vendors

email

Share Point

Docu Sign

(2) E&CM staff will download invoices from Share Point, and tracks and monitors invoices using an internal report.

(3) E&CM sends invoices via DocuSign to approver(s) for review and approval to obtain needed signatures, sometimes 2-14 signatures depending on invoice details, dollar amounts or projects listed.

(3) Multiple Approvers

Approved Invoice and document support

Is a PR needed?

No

Yes

E&CM performs Invoice Receiving into SAP

SAP

E&CM enters a PR into SAP and attach the required supporting documentation and necessary information.

Purchase Order (PO)

When the PO is available in SAP, E&CM can perform the "Receiving" function-SAP Goods Receipt/Invoice Receipt (GR/IR) for the Professional (Consulting) Services invoices

(4) E&CM has a goal of turning around the approved invoice to AP within 14 days

AP

Share Point

email

(5) E&CM updates Share Point with Vouching package(approved invoice, document support, SAP GR/IR receiving report information, and PO) and notify via email AP to vendor ready for payment

Contracts and Procurement

CAP works with E&CM and Finance throughout the process for vendor selection, PR requests, PO creation, and verifying funds available for a PO. Sometimes receive messages from the vendor.

CAP works with E&CM to determine the best procurement instrument necessary and determine the best method to proceed (sole/single source, or agreement or contract

CAP establishes agreement or contract with pricing, terms & conditions

Purchase Order (PO)

CAP reviews E&CM PRs. CAP prepares the PO with the amount requested by E&CM. The PO is used to receive goods against the established amount.
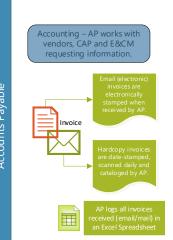
If there is a pricing change throughout the FY, CAP closes the old PO and creates a new PO but only with a new PR prepared by E&CM.

If money runs out in the established PO, E&CM 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, CAP and E&CM requesting information.

Invoice

Email (electronic) invoices are electronically stamped when received by AP.

Hardcopy invoices are date-stamped, scanned daily and cataloged by AP.

AP logs all invoices received (email/mail) in an Excel Spreadsheet

(7) 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.

SAP

(8) When AP receive an invoice for services, AP must research and identify the Agency department responsible for approving the invoice. It is sometimes difficult to identify the appropriate approver and timely route the invoice.

(1) AP emails E&CM the professional/consulting services invoices for approval

There is no visibility of where in the review/approval process the invoice is at during the time the invoice is being reviewed/routed and approved at E&CM.

(9) AP relies and waits on the "Receiving" to be completed by E&CM. E&CM notify AP that receiving has been completed via email correspondence.

SAP

(10) AP rely on FBL3N in SAP to identify the transactions where receiving has been performed. AP staff will perform a 3-way match by selecting the invoice for review, verify vouching package information: PO#, approved invoice & document support, SAP Goods Receipt/Invoice Receipt (GR/IR). This is done by navigating through various SAP screens and viewing the documentation in SAP. AP will complete 3-way match.

(11) AP checks for all the proper signatures according to A-50

If SAP receiving has not been completed by E&CM, the invoice will be placed back on hold and continue to stay in "Held invoices"

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

3-Way Match Invoice, Shipping Doc & PO

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

ACH payment

(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. Most payments are paid through ACH.

Progress Update for All Procure to Pay Audit Recommendations

Teresa Velarde

Manager of Internal Audit

June 6, 2022

Accounts Payable Operational and Internal Control Audit

Audit Objective

- Evaluate the ordering, receiving, and payment processes for the Agency's goods and services and
- Identify efficiencies and provide recommendations for improvements
- Provide recommendations to ensure the vendor payments are paid within terms.

Audit Observations & Recommendations

- 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, training, knowledge and information
- Establish processes and controls to monitor all vendor invoices, tracking them through the P2P process and ensure timely payment

Risks to IEUA for Late Vendor Payments

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

P2P Audits Completed to-date

- **<u>P2P for Chemicals for O&M (Operations & Maintenance)</u>**
  - Completed November 24, 2021
  - 35 audit recommendations

- **<u>P2P for Professional Services – for E&CM (Engineering & Construction Management)</u>**
  - Completed February 24, 2022
  - 21 audit recommendations

- **<u>P2P for Professional Services – for P&R (Planning and Resources)</u>**
  - Completed May 24, 2022
  - __ audit recommendations

Audit Recommendations Related to the P2P Audits

Current Status of the 56 Audit Recommendations

P2P CHEMICALS - 2ND UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Recommendations	Results after approximately 150 days, since the date of the original audit report (Nov 2021):
Operations & Maintenance	11	1	0	4	16	94% Implemented/Addressed 6% (1 of 16) Require Implementation
Contracts and Procurement	4	0	0	1	5	100% Implemented No outstanding recommendations
Accounting	1	11	1	1	14	14% Implemented/Addressed 86% (12 of 14) Require Implementation
Total Recommendations	16	12	1	6	35	

P2P - P/S E&CM - 1ST UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations	Results after approximately 60 days, since the date of the original audit report (March 2022):
Engineering & Construction Management	2	4	0	1	7	43% Implemented/addressed 57% (4 of 7) require Implementation
Contracts and Procurement	2	0	0	0	2	100% Implemented No outstanding recommendations
Accounting	0	7	4	1	12	8% Addressed 92% 11 of 12 require Implementation
Total Recommendations	4	11	4	2	21	

IA will provide a progress reports until all recommendations have been addressed.
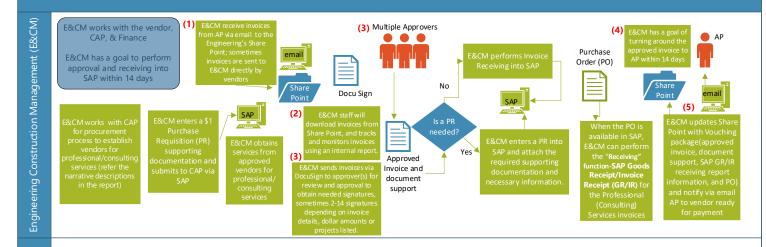
Results of P2P Audit Recommendations

Of the 56 recommendations:

- **20 are now Implemented**
- **23 are in progress of being implemented**
- **5 require additional time for corrective action (Not Implemented)**
- **8 are considered no longer applicable**

IA will provide a progress reports every quarter until all recommendations have been addressed.

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

Review of Procure to Pay Process for Professional Services administered by Engineering & Construction Management

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

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Review of Procure to Pay Process for Chemicals for Operations & Maintenance

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.

Operator Records in Plant Log Book

Operator Records in Delivery/ Receiving Log

Operator Records in shared drive excel spreadsheet

(1) Scans
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.

(2)

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

(4) SAP   email
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

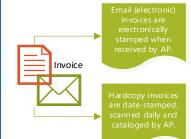**Accounting Accounts Payable**

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

Invoice

Email (electronic) invoices are electronically stamped when received by AP.

Hardcopy invoices are date-stamped, scanned daily and cataloged by AP.

(8) SAP
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) SAP
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).

3-Way Match Invoice, Shipping Doc & PO
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) ACH payment
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.

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Highlights – Contracts and Procurement

CAP has implemented the remaining six (6) audit recommendations.

— Available to provide training, information and guidance

— Working to identify knowledge gaps about SAP and procurement instruments

— Available to provide training and assistance with SOPs

Highlights –
Engineering & Construction Management

- The E&CM Department took the lead to evaluate their internal metric of fourteen (14) days to determine the best goal for their department.

- The Department has committed to finalizing a draft of the SOP by June 2022.

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.

- ***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***

- Finalized and implemented Department Standard Operating Procedure to document the process for performing the receiving function and for monitoring the related Purchase Orders.

Highlights – Accounting Unit

- Filling staff vacancies

- Working closely with IT to evaluate invoice recognition software and other monitoring tools

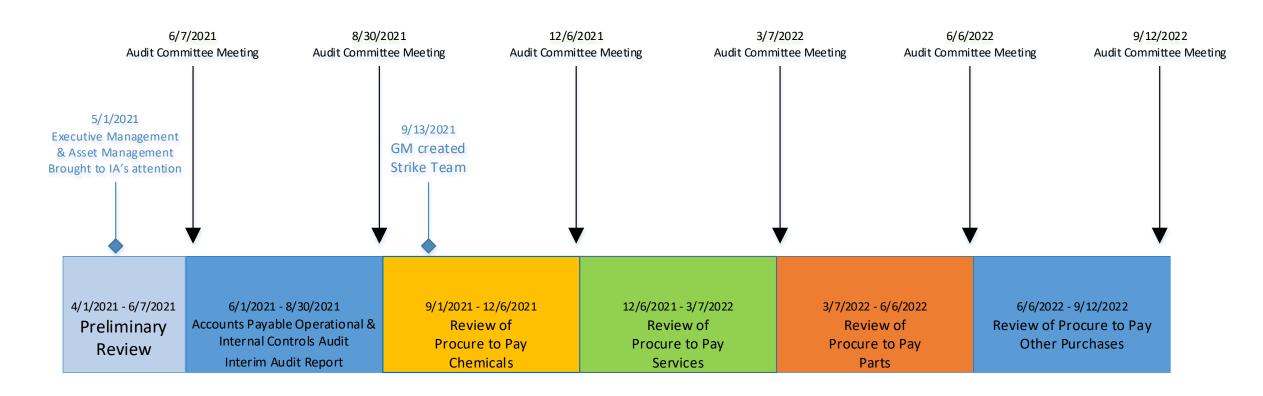- The Accounting Unit has committed to finalizing a draft of the SOP by June 2022.

Additional Internal Audit
Procure to Pay Audits

In Progress

- **P2P for Materials & Supplies**
  - Planned for completion by September 2022

Planned

- **P2P for Laboratory Equipment, Supplies and Professional Services**
- **P2P for other Professional Services**
- **P2P for Pay Estimates**
- **Others**

Internal Audit Timeline to Evaluate Accounts Payable Operations

6/7/2021
Audit Committee Meeting

8/30/2021
Audit Committee Meeting

12/6/2021
Audit Committee Meeting

3/7/2022
Audit Committee Meeting

6/6/2022
Audit Committee Meeting

9/12/2022
Audit Committee Meeting

5/1/2021
Executive Management
& Asset Management
Brought to IA's attention

9/13/2021
GM created
Strike Team

4/1/2021 - 6/7/2021	6/1/2021 - 8/30/2021	9/1/2021 - 12/6/2021	12/6/2021 - 3/7/2022	3/7/2022 - 6/6/2022	6/6/2022 - 9/12/2022
Preliminary Review	Accounts Payable Operational & Internal Controls Audit Interim Audit Report	Review of Procure to Pay Chemicals	Review of Procure to Pay Services	Review of Procure to Pay Parts	Review of Procure to Pay Other Purchases

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The Progress Update for all Procure to Pay Audit Recommendations is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring IA's evaluations provide recommendations that foster a strong internal control environment, safeguard assets, promote a safe work environment and assist management in achieving goals and objectives.

INFORMATION
ITEM
2E

Date: June 15, 2022

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

Committee: Audit   *06/06/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Report of Open Audit Recommendations

Executive Summary:

The Board-approved Internal Audit Department Charter (Charter) requires the Internal Audit Department (IA) to provide the Audit Committee and the Board with an annual report listing all outstanding audit recommendations including action plans and expected resolution dates. The Charter also requires IA staff to follow-up on the status of outstanding audit recommendations to determine if corrective action efforts have been made to address the original observations or findings. A recommendation is considered "outstanding" when management agreed with the original recommendation at the time of the audit but the area audited has not yet addressed the observation noted or requires IA's verification in order to close out the item. Responses to the recommendations, including action plans, were discussed and incorporated in the original audit report when issued. As of June 2022, 126 recommendations are considered outstanding; 20 relate to required policy updates currently under review, 31 relate to the renegotiation of the Regional Contract, 28 relate to the recent P2P audits, and 47 are eligible for reevaluation. Attached, is a complete report listing all outstanding recommendations and the status. Follow-up reviews are scheduled according to the proposed Annual Audit Plan or sooner if requested by management, the Audit Committee, the Board, or if risk and/or priority increases for the area reviewed. This report is updated, with the completion of new and follow-up audits.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

Fiscal Impact (explain if not budgeted):

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

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

Prior Board Action:

On 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 an Annual Report listing all Outstanding Audit Recommendations.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Report of Open Audit Recommendations
Attachment 2 - PowerPoint

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Accounts Payable Follow-Up Audit	August 28, 2013	4	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	X		
Finance and Accounting	Accounts Payable Follow-Up Audit	August 28, 2013	5	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	Overall	Consider legal, political and financial impacts of governing by ordinance vs. contract	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	Overall	Review and revise EDU formula	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	Overall	Resolve identified differences of over/under collected amounts of Connection fees and identified differences of over/under collected amounts of unreported monthly sewerage fees	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	1	**Connection Fees:** Centralize the permitting process OR IEUA provides final sign-off and plumbing permit approval for all nonresidential entities.	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	2	**Connection Fees:** IEUA should establish monitoring program to inspect random facilities and those were there is a suspected discrepancy	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	3	**Connection Fees:** Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	4	**Connection Fees:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	5	**Connection Fees:** Two tier connection fees process that distinguishes between common features and unique features (i.e., a toilet always costs the same regardless of type of business)	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	6	**Connection Fees:** Update Exhibit J regularly to include new/evolving business types	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	7	**Connection Fees:** Update & clarify Fixture Unit descriptions of Exhibit J regularly	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	8	**Connection Fees:** Standardize calculation worksheet to ensure it is consistent with Exhibit J and consistent region-wide	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	9	**Connection Fees:** IEUA should require copies of calculation worksheets for all nonresidential customers along with the monthly Building Activity Reports.	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	10	**Connection Fees:** Regular workshops, meetings, plant tours, etc. with staff in Building, Plan Check and Utility Billing/Financial Departments	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Agency Management	Regional Contract Review - Final Report	December 16, 2015	11	**Connection Fees:** IEUA develop fixture count expertise and provide regular/ongoing training for Contracting Agencies - Building Departments	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	12	**Connection Fees:** Contracting Agency internal review of Connection Fees as part of preparing the Building Activity Report	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	1	**Monthly Sewerage:** Collect monthly sewerage fees for the entire region through County's property tax roll	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	2	**Monthly Sewerage:** Evaluate methodology used for billing monthly sewerage fees (residential and commercial) and consider alternatives by water consumption, EDUs purchased or other methodology	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	3	**Monthly Sewerage:** Standardize monthly report to provide IEUA automated, itemized listings of non-residential monthly sewerage charges	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	4	**Monthly Sewerage:** Establish contract for monthly sewerage payments from Contracting Agencies rather than IEUA issuing monthly invoices	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	5	**Monthly Sewerage:** IEUA exercise inspection, verification and recourse rights for under-collected/under-reported monthly sewerage fees	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	6	**Monthly Sewerage:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	7	**Monthly Sewerage:** Update 1997 billing memorandum regularly for new business types to provide detailed definitions and descriptions	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	8	**Monthly Sewerage:** Create a correlation between monthly sewerage fees and Connection Fees	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	9	**Monthly Sewerage:** Add billing guidance for locations with multiple types of businesses serviced by a master meter	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	10	**Monthly Sewerage:** Bill commercial businesses at least a minimum of one EDU per month	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	1	**Public Service Facility:** Consider legal, political and financial impacts of excluding Public Service Facilities from Connection Fees and monthly sewerage charges.	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	2	**Public Service Facility:** Consider legal, political and financial impacts of IEUA assuming responsibility for Connection Fees calculations, collections and CCRA accounts	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	3	**Public Service Facility:** Contract should include IEUA inspection, verification and recourse rights for under-collected/under-reported Connection Fees	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	4	**Public Service Facility:** Contract should include IEUA right to audit, full cooperation and access to records and documents upon request	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Agency Management	Regional Contract Review - Final Report	December 16, 2015	5	**Public Service Facility:** Address difference between "Publicly Owned" vs. "Publicly Used"	X		
Agency Management	Regional Contract Review - Final Report	December 16, 2015	6	**Public Service Facility:** Consider cross-departmental approach to the development review process as a regional model	X		
Information Technology	Follow-Up - IT Equipment Audit - ISS (IT Equipment August 21, 2012 - Original audit)	February 29, 2016	3	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.	X		
Information Technology	Follow-Up - IT Equipment Audit - ISS (IT Equipment August 21, 2012 - Original audit)	February 29, 2016	1	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.	X		
Information Technology	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	15	FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	X		
Information Technology	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	17	FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.	X		
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	19	FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.			x
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	22	FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.			x
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD December 5, 2016	December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	X		
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD December 5, 2016	December 5, 2016	2	FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.	X		
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	5	FAD should take the lead to review and determine if the Petty Cash limit of $50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over $50).			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.	X		
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.	X		
Inter-Agency Relations	Water Use Efficiency Programs Audit	June 5, 2017	1	While many retail customers received rebates, the range of customers could have been broader. Outreach to customers about WUE measures is a primary responsibility of member agencies, but IEUA may want to consider establishing a forum to discuss the goals and results of WUE Programs. The purpose of the discussions would be to evaluate and develop approaches to help (or consider joint efforts to) publicize, target and follow-up with entities in IEUA's service area when WUE opportunities become available, and tailor outreach towards specific and/or different entities in the region that match those characteristics and/or potentially maintain a database of the region's entities by unique characteristics (schools, churches, large lots, etc.).	X		
Finance and Accounting	Water Use Efficiency Programs Audit	June 5, 2017	2	Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as: • Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items in advance for capitalization in WIP. • Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects. • Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to: o Ensure only capital projects are included o Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized o Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.	X		
Inter-Agency Relations	Water Use Efficiency Programs Audit	June 5, 2017	3	The Agency may want to consider utilizing the Annual Water Use Efficiency Programs Report as an evaluative tool to compare actual results to those projected in the Regional WUE (five year) Business Plan. The Annual WUE Programs Report could discuss reasons for variances from that plan, document changes being made to the plan and describe progress on any other initiatives that expect to yield water savings in future years.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Inter-Agency Relations	Water Use Efficiency Programs Audit	June 5, 2017	4	IEUA may want to consider providing additional documentation, descriptions or informative information in the body of the Annual WUE Programs Report to describe the differing sources of information used to provide member agency information vs. regionwide information or alternatively (and/or in addition), presenting both the summary and member agency information on the same basis.	X		
Inter-Agency Relations	Water Use Efficiency Programs Audit	June 5, 2017	5	IEUA may want to consider expanding the "Highlights" commentary and providing subheadings and organizing the section to match the order of the Summary Charts to align the descriptions to the charts that follow.	X		
Inter-Agency Relations	Water Use Efficiency Programs Audit	June 5, 2017	6	WR staff may want to consider developing a desk procedure or other document to guide the preparation of the Annual WUE Programs Report for internal staff to follow.	X		
CAP	Contracts and Procurement Follow-Up	August 30, 2017	1	CAP should review the SAP assigned roles and transaction codes and ensure that good internal controls are followed and no conflicts exist. IA recommends CAP consider eliminating or reducing the ability to Create PRs and Receive Goods, for CAP buyers in order to strengthen internal controls and further reduce risks.	X		
Finance and Accounting	Payroll Operations Audit	August 30, 2017	1	IA recommends that HR consider evaluating alternatives to the manual files used to maintain employee information, for example: --Working with Business Information Systems (BIS) to develop or acquire a self-service portal for employees to make updates and changes to certain information that currently requires a hard-copy document, such as withholding information, beneficiary information, address changes, or for adding or deleting a family member from their policies, and contribution amounts to various accounts. --The Agency is in the process of implementing ECMS. HR may want to consider whether the new ECMS would provide an automated approach to maintaining and updating employee information or whether another automated approach would be possible.	X		
HR	Payroll Operations Audit	August 30, 2017	2	As part of the Agency's disaster preparedness effort, IA recommends that HR consider maintaining manual/hard-copy files in fire proof/water proof cabinets.			X
Finance and Accounting	Payroll Operations Audit	August 30, 2017	3	FAD should update Standard Operating Procedure No. CR PR-08 to reflect the new payroll bank reconciliation process, communicate the procedure to all department employees and ensure the SOP is in the format outlined in accordance with Agency Policy A-51.	X		
Finance and Accounting	Payroll Operations Audit	August 30, 2017	4	FAD should ensure bank reconciliations are prepared monthly and supervisory review occurs in a timely manner to ensure all outstanding and reconciling items are researched, investigated and resolved.			X
HR	Payroll Operations Audit	August 30, 2017	6	Both HR and FAD should encourage employees with payroll related functions to attend ethics/fraud awareness training specific to their job responsibilities to stay informed about new developments, risks and safeguards (for example, safeguards for potential payroll fraud, safeguarding personnel files and employee confidential information, etc.)			X

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
CAP	Procurement Card Audit	March 1, 2018	1	Agency Policy A-89, Procurement Card Program should be updated to reflect desired internal controls and provide clearer guidelines about the proper use of P-Cards. The policy should provide greater clarity about the purchases that are allowed or not allowed (i.e.: food, restaurant, meals, training registrations, membership payments, etc.). Additionally, the policy should provide instructions for users to follow when there are situations that are unusual and note the additional written justification that is necessary. Lastly, A-89, should direct users to seek CAP's guidance when there is a unique need, keeping the Agency's need in mind and ensuring adequate controls are maintained.	X		
CAP	Procurement Card Audit	March 1, 2018	2	The P-Card Administrator role should be clarified in Policy A-89 and expanded to include greater oversight responsibilities to ensure compliance. The role should include duties to fully utilize the various on-line tools available through US Bank for reports, alerts, training and other controls for reviewing and monitoring activity. Additionally, the P-Card Administrator should provide assistance and give advice on the best procurement method and periodically review statements and identify purchases and transactions that are not aligned with policy and request additional information.	X		
CAP	Procurement Card Audit	March 1, 2018	3	CAP should update Department-specific SOP CAP-0012 to incorporate any changes in Agency Policy A-89 Procurement card Program, including any updates to the P-Card Administrator's role and responsibilities. Additionally, CAP should ensure the SOP CAP-0012 complies with the guidelines and format set forth in Agency Policy A-51.	X		
CAP	Procurement Card Audit	March 1, 2018	4	CAP and FAD should work together to utilize any in-house tools and/or online tools available through US Bank to make the review, approval, reconciliation and upload of P-Card purchases more efficient with adequate oversight.			X
CAP	Procurement Card Audit	March 1, 2018	5	CAP should take the lead to evaluate the benefits of consolidating credit card programs to utilize P-Cards for all purchases (other than fuel) and to eliminate other vendor-specific credit card or credit programs. At a minimum, the Agency should ensure all Credit Card programs are governed by an approved Agency Policy.	X		
CAP	Procurement Card Audit	March 1, 2018	6	CAP should maximize the use of the US Bank online tools for downloading/reviewing reports, creating blocks and alert notices for unusual activity, streamlining the approval, reconciliation and upload/posting process and training end users and approvers.			X
CAP	Procurement Card Audit	March 1, 2018	7	FAD should evaluate ways for the Agency to increase and/or maximize any rebates received.			X
Finance and Accounting	Wire Transfers Audit	March 1, 2018	2	FAD should finalize the new SOPs in the format provided in Agency Policy A-51.	X		
Finance and Accounting	Wire Transfers Audit	March 1, 2018	3	The Agency should evaluate the cost/benefit of obtaining additional coverage and consider a per occurrence limit greater than $2 million to ensure the Agency has adequate insurance coverage to address the Agency's risk tolerance. In addition, to address potential uncovered losses, the Agency should consider reducing the threshold for a bank call-back to any amounts that exceed the Agency's chosen limit for Fraud Transfer Insurance.			X
Finance and Accounting	Wire Transfers Audit	March 1, 2018	4	FAD should develop standards for documentation of transactions in SAP and a process of reviewing transactions once posted to ensure that the information in the accounting records is consistent and complete.			X

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Wire Transfers Audit	March 1, 2018	5	FAD should document or revise a separate SOP that describes the steps in the wire transfer process for investment transactions to provide guidelines for the processing of investment transactions.			X
Finance and Accounting	Inter-fund Transactions Audit	August 30, 2018	2	FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.	X		
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	1	In evaluating access controls over all IEUA staff that have some level of AP authorization, IA noted that some staff members have transferred to other departments at IEUA or to different functions within FAD. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Business Information Systems (BIS) should work with Finance and Accounting Department (FAD) and Human Resources (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include: - Business Information Systems (BIS) working closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties. - BIS working with HR to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties. - BIS determining the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor.			X
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	3	FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address.			X
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	4	FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately. Additionally, vendors created through the conversion process to SAP and never used should be deleted.			X
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	5	FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.			X
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	1	Operations & Maintenance Department should develop and document goals and objectives, Key Performance Indicators (KPIs), and/or other metrics for the Agency's fleet operations for measurement, analysis, tracking and reporting the fleet program's effectiveness. Goals should be aligned with the Division's overall mission and could include cost of fuel, fuel usage/consumption, cost of maintenance, asset value of the fleet by type of vehicle, etc. Goals should be measured, evaluated and updated periodically.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	2	Operations & Maintenance should work with US Bank to evaluate the reporting tools and features that are available to provide useful information about the Agency's fleet to identify inefficiencies, areas of improvement, and instances of unusual card usage where follow-up is be required and reduce potential risks of misuse.	X		
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	3	The Fuel Card Administrator role should be clarified and enhanced, either in Agency Policy A-86 and/or other related policy. The Fuel Card Administrator role should be enhanced to include greater oversight roles and responsibilities, to include: - Responsibilities to maximize the use of online reports and tools available through the US Bank Fleet Commander® Online system. - Analysis and evaluation reports and communications to provide Operations & Maintenance information about the fuel card program.	X		
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	4	Operations & Maintenance should establish a process to periodically review the use of fuel cards and ensure cards no longer needed or used are deactivated to reduce risks to the Agency.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	1	Human Resources should include additional justification information for the final selection made in the recruitment file to close out the recruitment file and ensure it stands alone.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	2	Human Resources should take the lead and work with Business Information Services and determine ways to implement automated workflows for recruitment documents and forms and utilize electronic files.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	3	Human Resources should take the lead to install fireproof and waterproof filing cabinets to safeguard manual personnel, recruitment, and other HR related files, in the event of a disaster.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	4	Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	5	Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	6	Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	7	IA recommends that Human Resources and Contracts and Procurement work together to establish written contracts for all vendors used by HR to document the scope, terms and conditions and prices for the services. The contracts should establish what information is included in the invoices for payment and what information needs to be maintained separately and confidentially.			X
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	1	IA recommends implementing a process to review and verify recycled water records and processes (including how meters are checked, maintained and calibrated) at the individual contracting agencies to ensure completeness and accuracy of information provided to the Agency as provided in Agency Ordinance #63. An internal or external audit and/or review of contracting agency reporting of recycled water would provide an independent analysis of the information received from the contracting agencies to verify the data reported to the Agency. At a minimum, Planning staff should request additional supporting documentation from the contracting agencies periodically, to verify the information reported. This would potentially prevent, detect and/or correct any discrepancies to minimize any potential risk of error in reporting.	x		
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	3	Planning should take the lead to work together with Agency staff and the contracting agencies to develop standardized information reporting. Standardized and automated reports and methods of providing information would create efficiencies, make the process consistent and ensure accuracy.	x		
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	4	Engineering should update the Standard Operating Procedure and attached Exhibit #1: Work Instruction for Preparing Recycled Water Billing (last updated in 2015) to provide current detailed instructions and information for recording and reporting the recycled water information received from the contracting agencies.	x		
HR	Human Resources: Workload Indicators Review	May 29, 2020	1	HR should evaluate the Department Workload Indicators as reported in the Agency's Budget document and consider additional and/or different Workload Indicators that provide information about the various activities of the department and ensure they are aligned to the department's goals.			X
HR	Human Resources: Workload Indicators Review	May 29, 2020	2	HR should document a Standard Operating Procedure or desk procedures to ensure consistency in the data collected and the method in calculating workload indicator results as documented in the Budget Book.			X
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	1	HR should re-evaluate the purpose and objective of the "Training Hours per Employee" Workload Indicator reported in the Agency's Budget document, determine what the indicator is intended to measure, capture and report and how the indicator aligns with the department's goals and the overall Agency goals and objectives.			X
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	2	HR should re-evaluate the calculation applied for "Training Hours per Employee" to ensure it is capturing the intended type of training. If the intent is to capture all training including training not administered through HR, periodically remind employees, supervisors and managers to appropriately code each type of training on timesheets to ensure the needed information is captured for the Workload Indicator.			X
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	3	HR should take the lead to work with Records Management on the record retention needs of the department and ensure the information in ABRA is managed and follows the recommended record retention guidelines to ensure the Agency complies with any requests and to minimize any potential risks of retaining older personnel records in the ABRA system.			X

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	4	HR should reevaluate Skillsoft as a training resource and consider establishing goals and objectives for the utilization of Skillsoft for employee training and development. Additionally, if HR determines Skillsoft is a beneficial training resource, HR should implement plans to increase utilization of Skillsoft.			X
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	HR should determine the need to either delete or update Agency Policy A-57.	X		
Finance and Accounting	Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	Finance and Accounting Department (FAD) Facilities Management should work together to reconcile the asset records in SAP: • The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency departments. • Facilities Management should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc. • FAD should and will continue to provide on-going training and departments should reach out for additional information and guidance. • Facilities Management should document their own SOP for the process of adding, removing and tracking assets under their custody	X		
O&M	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	12	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	21	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. 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.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	23	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	24	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. AND Accounting should formalize and document specific procedures for how items are selected for matching and processing for payment before the due date. Specify the action steps, AP should take when items are approaching the due date or are past the due date, and how to elevate items for prompt research and attention.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	25	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.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	26	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		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	27	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.		X	
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	29	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	30	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	31	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	32	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		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	33	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.ure that items are processed by the payment terms.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	35	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		

Outstanding Audit Recommendations
as of June 1, 2022

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
E&CM	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	1	The E&CM Department management: Finalize and update the SOP by documenting, signing, sharing with staff, and providing training. 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.	X		
E&CM	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	2	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. 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. 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.	X		
E&CM	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	3	The E&CM Department management should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.	X		
E&CM	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	4	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.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	10	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. 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. 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.		X	

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	11	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. (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). New Recommendation: The Accounting management should determine how this new reporting/monitoring tool (information from the Held Invoices) will be used and implement a procedure to assist with tracking, monitoring and prioritizing making timely payments.		X	
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	12	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.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	13	It is recommended that the Accounting management: •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 Concur for invoice process and management.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	14	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 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. 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. 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.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending IA follow up review
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	15	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). 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. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-five (25) currently In Progress).	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	16	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 communication for invoice management.	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	17	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. (Note: This is recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-six (26)).	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	18	The Accounting should provide training periodically to reinforce the documented SOPs to ensure employees are following consistent procedures. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-seven (27)).	X		
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	19	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. (Note: This recommendation was provided in the Procure to Pay Chemicals audit report as Recommendation twenty-nine (29)).		X	
Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Professional Services for the Engineering Dept (P2P E&CM)	February 24, 2022	20	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, and/or 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.		X	

Report of Open Audit Recommendations

Teresa Velarde

Manager of Internal Audit

June 6, 2022

Outstanding Audit Recommendations

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*
Accounts Payable Follow-Up (*Deferred Recommendations related to Agency Policies*)	August 29, 2013	2
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7
Water Use Efficiency Programs Audit	June 5, 2017	6
Contracts and Procurement Follow-Up Audit	August 30, 2017	1
Payroll Operations Audit	August 30, 2017	5
Procurement Card Audit	March 1, 2018	7
Wire Transfers Audit	March 1, 2018	4
Inter-fund Transactions Audit	August 30, 2018	1
Accounts Payable Follow-Up Audit	May 30, 2019	4
Voyager Fuel Card Audit	May 30, 2019	4
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7
Recycled Water Revenues Audit	May 28, 2020	3
Human Resources: Workload Indicators Review	May 29, 2020	2
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for Chemicals	November 24, 2021	13
Accounts Payable Operational and Internal Control Audit Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management	February 24, 2022	15
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
Total Outstanding Audit Recommendations		**126**

Report of Open Audit Recommendations

As of June 2022, 126 recommendations remain outstanding:

- 28 - Procure to Pay Audits which are followed up on quarterly,

- 31 - renegotiation of the Regional Contract,

- 20 - required Agency policy Updates,

- 47 – recommendations eligible for follow up evaluation.

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

INFORMATION ITEM 2F

Date: June 15, 2022

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

Committee: Audit   *06/06/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for June 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 administered by the Planning and Resources Department, this review falls under the comprehensive Accounts Payable Operational and Internal Control Audit to provide recommendations to improve the timeliness of vendor payments. IA is also providing a status update on the 56 audit recommendations provided in the Review of the Procure to Pay processes for Chemicals and the Review of the Procure to Pay processes for Professional Services under the Engineering and Construction Management Department. Other audit projects are also discussed in detail in this status report. IA continues to participate in various committees and discussions and assists with requests for review of Agency policies and procedures, and provides recommendations to improve internal controls. The attached Quarterly Status Report provides details of the activities during this quarter.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

 N/A

Fiscal Impact (explain if not budgeted):

 N/A

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

Prior Board Action:

On June 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 June 2022
Attachment 2 - Article from BlueGrace Logistics - A Step-by-Step to Doing an Internal Audit of Your Supply Chain (June 14, 2021)
Attachment 3 - Article from SupplyChain Management Review - Top 5 supply chain risks for 2022 (January 17, 2022)

Projects Completed This Period

Project: **Accounts Payable Operational and Internal Control Audit Report -
Review of Procure to Pay Processes for Planning and Resources (P&R)**

Scope:
The objective of the audit was to evaluate the procure to pay processes related to the Professional/Consulting Services as administered by the P&R department and make recommendations to make the process more efficient to ensure payments are made timely. To-date, this is the fourth comprehensive internal audit completed under the Accounts Payable Operational and Internal Controls Audit.

Status: **COMPLETE**
The focus of this audit was to evaluate the Procure to Pay (P2P) processes for Professional Services, administered by P&R. In FY 2021/22 (as of April 16, 2022), P&R has processed 154 vendor payments in the amount of $2,075,075, for Agency related professional/consulting services Internal Audit (IA) analyzed the timeliness of payments and performed detailed audit tests on a select number of transactions to evaluate the amount of time required for each step in the process to pay an invoice.

The complete audit report provides a detailed and comprehensive flowchart and narrative (table) documenting the P2P processes. The report provides 15 audit observations and recommendations in the following areas:

- Routing of invoices from AP to the department
- Leveraging technologies (new and/or existing) to utilize workflows
- Working close with the department(s) to identify unique transactions and the procurement instruments and/or processes for unique, uncommon situations/transactions
- Reducing email notifications and communications
- 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 progress reports to provide a status on the corrective actions implemented.

Project: **Interim Audit Report:
Accounts Payable Operational and Internal Control Audit:
Procure to Pay Processes for – Materials and Supplies**

Scope:
The focus of this audit is to evaluate the Procure to Pay processes for the Agency's Materials and Supplies, which are critical to the Agency because these are items needed to ensure the Agency's treatment plants and equipment are running in good condition. IA selected this area for review due to the complaints about several vendors of materials and supplies placing the Agency on Credit Hold. When the Agency is placed on CH, the Agency is at risk of not being able to obtain the necessary equipment, tools and supplies.

Status: **Interim Audit Report – Audit Still in Progress**
The audit is ongoing. This is an interim audit report that documents the P2P process in flowchart and narrative format. This memo also provides a preliminary list of vendors currently being analyzed. The report provides some preliminary recommendations and a list of additional audit procedures to be performed. IA plans to complete a detailed review of financial transactions for various material and supplies purchases to evaluate reasons for the delays in payments and provide recommendations to make the process more efficient.

The final audit report is planned for completion: September 2022.

Project: Accounts Payable Operational and Internal Control Audit:
                    Quarterly Progress Update for all P2P Audit Recommendations

Scope:
The purpose of the Progress Update for all P2P Audit Recommendations is to provide a status on the implementation status of all audit recommendations provided through the P2P Audits:

- Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Chemicals:
    - Dated November 24, 2021
    - Provided 35 audit recommendations

- Accounts Payable Operational and Internal Controls Audit Report - Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management
    - Dated February 24, 2022
    - Provided 21 audit recommendations

Status: Completed June Progress Update and Ongoing

As of May 16, 2022, the status of each review is as follows:

P2P CHEMICALS - 2ND UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Recommendations	Results after approximately 150 days, since the date of the original audit report (Nov 2021):
Operations & Maintenance	11	1	0	4	16	94% Implemented/Addressed 6% (1 of 16) Require Implementation
Contracts and Procurement	4	0	0	1	5	100% Implemented No outstanding recommendations
Accounting	1	11	1	1	14	14% Implemented/Addressed 86% (12 of 14) Require Implementation
Total Recommendations	16	12	1	6	35	

P2P - P/S E&CM - 1ST UPDATE	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Recommendations	Results after approximately 60 days, since the date of the original audit report (March 2022):
Engineering & Construction Management	2	4	0	1	7	43% Implemented/addressed 57% (4 of 7) require Implementation
Contracts and Procurement	2	0	0	0	2	100% Implemented No outstanding recommendations
Accounting	0	7	4	1	12	8% Addressed 92% 11 of 12 require Implementation
Total Recommendations	4	11	4	2	21	

The departments proposed action plans for all the outstanding recommendations are included in attachments under a separate cover. IA will continue to provide quarterly progress reports until all audit recommendations have been addressed. The complete report is under separate cover.

Project: Internal Audit Annual Audit Plan for FY 2022/23

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

Status: COMPLETE
For the FY 2022/23 Annual Audit Plan, IA is proposing the following audit projects: Accounts Payable Operational and Internal Control Audit, specifically, the completion of additional P2P reviews including the completion of P2P for Materials and Supplies, P2P for Laboratory equipment, P2P additional professional services and others if deemed necessary. Additionally, IA is proposing the Information Systems Physical Inventory and Internal Controls Audit and follow-up, in addition to on-going and required projects, such as the annual ACFR review. The Annual Audit Plan is considered a flexible plan and projects can change or other projects with higher risks can take greater priority. Any changes or amendments to the Audit Plan are communicated to the Audit Committee through the Status Report or other amendment document. The final Annual Audit Plan is provided under a separate cover.

Project: **Completion of Filing of Financial Audit and Single Audit for FY 2020/21**

Scope:
Annually, IA takes the lead to file the Single Audit Reporting package and other Financial Statements/Reports with the various regulatory agencies. The Single Audit Reporting packages are due nine months after the entity's fiscal year end according to 2 CFR 200.512, which is March 31st. For FY 2021, the due date was extended six (6) months beyond the normal due date, which is September 30, 2022, per the memorandum M-21-20 issued by the Office of Management and Budget (OMB).

Status: **COMPLETE**
Every year in December, IA presents IA's Quality Control Review of the Agency's Annual Comprehensive Financial Report. IA coordinates with the External Auditors and the Accounting Unit to provide IAs observations related to IAs quality control review. Additionally, every year, once all audit reports have been completed by the External Auditor and approved for distribution by the Board of Directors, IA takes the lead to ensure these are filed with the required regulatory agencies.

In May 2022, IA completed the required filings with the State Controller's Office, State Water Resources Control Board and County of San Bernardino. Documents filed included: IEUA's Single Audit Reporting Package*, Chino Basin Regional Financing Authority's (CBRFA) Financial Statements, and the Inland Empire Regional Composting Authority's (IERCA) Annual Financial Report for FY 20/21.
*(*Note: Single Audit Reporting package is comprised of the IEUA's Annual Comprehensive Financial Report and Single Audit)*

To complete the filing, IA had to coordinate with the Grants, Accounting and Records Management departments to gather the information needed for the filing. IA updated and notified each of the respective departments after the filing had been completed and provided the information for the Agency's record retention requirements. For the last two fiscal years (FY 2020 and 2021), due to the pandemic and working remotely, the filing of the Single Audit Reporting package and the other financial statements/reports were completed electronically and online using new technology tools, such *One Drive* and FTP (file transfer protocol) site, whereas previously the filings were completed using hard-copy documents.

IA will continue to pursue filing these documents electronically and online, and to align with the Agency's Business Goal of Environmental Stewardship.

Projects in Progress

Project: Audit Software Review Project: Workpaper and Data Analytics Software Tools

Scope:
IA is evaluating the costs and 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 technology, including, an automated working paper system as well the use of data analytics would enhance the audit capabilities and efficiency of the audit process. Currently, IA is using Microsoft Office products. SharePoint is not geared toward auditing tools and creating audit workpapers. Resources, including costs and staff time will be necessary for implementation and maintenance. IA is carefully evaluating costs/benefits as well as risks and opportunities. Benefits and opportunities include time saving, quicker and more robust and larger scale analysis of transactions, sustainability, efficiencies, report production, dashboards, continuous monitoring, and storage, workpaper documentation and review administration.

Status: **In Progress**
To date, IA has met with the three amin audit workpaper software vendors: AuditBoard, TeamMate and Workiva. Each vendor has provided a quick version of a demo and preliminary information.   AuditBoard

provided a three-day sandbox opportunity. Additional meetings will be scheduled to obtain additional information for further research and evaluation with all vendors.

IA is also in the process of bringing on board the advice from IT and Contracts and Procurement. 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.

Project: **Strike Team, Asset Management Steering Committee & Safety Committee**

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

The Strike Team was implemented by the GM to assist in implementing audit recommendations and immediate changes as a result of the recommendations from the P2P Audits.

Status: **On-going**
During this quarter, IA staff participated in weekly meetings with the Strike Team and monthly meetings for Asset Management Steering Committee and the Safety Committee (or more frequent when necessary). 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. During the meetings, IA provides input and suggestions related to the initiatives underway. For example, Asset Management is currently developing an Asset onboarding and disposal policy and process and IA is very engaged with regards to prior audit recommendations provided. These meetings require approximately one hour each per month and sometimes more 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 met compliance requirements according to Agency policies and procedures, follow proper internal controls and contain the required supporting documentation.

Status: **In Progress**
IA has provided detailed updates through this Status Report. 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.

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 June 2022

The IAD Charter requires IA to follow-up on the status of outstanding audit recommendations to determine if corrective actions have been implemented. A recommendation is considered "outstanding" if it requires corrective action to address the finding and risk observed. IA performs follow up reviews, to determine that risks have been addressed and clears the recommendation when deemed appropriate. 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 June 2022, there are 95 outstanding audit recommendations. Details about each of the outstanding recommendations is submitted with the Annual Audit Plan each June. This summary provides an updated count of the outstanding recommendations. This summary includes new recommendations provided during this fiscal year as well as considers any recommendations cleared during the year (up to the prior quarter). A follow up review is typically scheduled between 12–24 months from the date of the original audit, to allow time for full implementation. If a recommendation is deemed not implemented, the recommendation remains outstanding or alternate controls to mitigate any risks are evaluated to determine if the risk has been addressed and the recommendation is no longer applicable. A follow up review is also scheduled sooner, if requested by the Audit Committee or Executive Management and/or the department audited. The audited business units are encouraged to submit additional information for IA review if they determine the recommendation has been satisfied.

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA*
Accounts Payable Follow-Up (*Deferred Recommendations related to Agency Policies*)	August 29, 2013	2
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7
Water Use Efficiency Programs Audit	June 5, 2017	6
Contracts and Procurement Follow-Up Audit	August 30, 2017	1
Payroll Operations Audit	August 30, 2017	5
Procurement Card Audit	March 1, 2018	7
Wire Transfers Audit	March 1, 2018	4
Inter-fund Transactions Audit	August 30, 2018	1
Accounts Payable Follow-Up Audit	May 30, 2019	4
Voyager Fuel Card Audit	May 30, 2019	4
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7
Recycled Water Revenues Audit	May 28, 2020	3
Human Resources: Workload Indicators Review	May 29, 2020	2
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for Chemicals	November 24, 2021	13
Accounts Payable Operational and Internal Control Audit Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management	February 24, 2022	15
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
Total Outstanding Audit Recommendations		**126**

*The Outstanding Recommendations Table does not update the status of recommendations resolved by follow-up audits during the current quarter or add any new recommendations resulting from the projects completed during this quarter (as noted in this Status Report). The table is revised for those changes once all items have been received by the Audit Committee and the Board of Directors which is when items are determined to be final.

As of June 2022, 126 recommendations remain outstanding:
- o **28 relate to the Procure to Pay audits completed, these are currently followed-up on, quarterly**
- o **31 relate to the renegotiation of the Regional Contract,**
- o **20 relate to required Policy updates to Agency policies, HR is working with a consultant to evaluate**
- o **47 recommendations are eligible for follow up evaluation**.

Special Projects

Ongoing

IA 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.

Management Requests

Ongoing

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

During this quarter, IA staff assisted the Finance and Accounting Department with interviews for Financial Analyst, the Accounting Supervisor and Intern positions. All three IAD staff members participated in the review of resumes and applications and various scheduled interviews of candidates. The process requires time to review information and document details of the interviews and review as well as meet with other evaluators to discuss the requirements of the position, etc.

Audit News & Trends

IA is providing information on Supply Chain Risk, a current audit trend. This is for information, attachments to the complete article are included at the end of this Quarterly Status Report.

Supply chain risk has been in the news lately. Supply chain risk exposure has impacted many consumers and organizations with delays of needed goods to continue essential processes. Improving your supply chain reduces the operating costs that add value to the organization. A recent logistics article *titled "A Step-by-Step Guide to Doing an Internal Audit of Your Supply Chain"* by Blue Grace [1] discusses how Internal Audit can help an organization develop appropriate supply chain risk management program. Some the key attributes noted in the article are the following:

- Reviewing and understanding supply chains, including their strengths and weaknesses, in developing markets, to validate monitoring programs
- Working with the company's supply chain specialists to help develop a monitoring process that can be repeated
- Helping to identify which suppliers are critical
- Assessing which suppliers may be vulnerable to threats and helping draw up a residual mitigation profile
- Identifying strong risk control procedures
- Helping to develop key analytic tools and techniques
- Aiding with compliance monitoring

The *Supply Chain Management Review* reported the Top five (5) supply chain risks for 2022 [2] are (1) Worldwide Water Instability, (2) Ocean Freight Bottlenecks, (3) The Continuously Changing Workplace, (4) Just-in-Time Shifts to Just-in Case and (5) Increased Regulatory Scrutiny. Organizations have an incredible opportunity to partner with the Internal Audit function to assess supply chain risk and develop a risk mitigation action plan to reduce risk exposure and identify process improvements.

[1] A step-by-step guide to doing an internal audit of your supply chain. BlueGrace Logistics. (2021, June 14). Retrieved May 3, 2022, from https://mybluegrace.com/bluegrace-logistics/a-step-by-step-guide-to-doing-an-internal-audit-of-your-supply-chain/

[2] Forger, G. (2022, January 18). Top 5 supply chain risks for 2022. Recently Filed RSS. Retrieved May 16, 2022, from http://www.scmr.com/article/top_5_supply_chain_risks_for_2022

Internal Audit Staffing and Professional Development

As required by the International Standards for the Professional Practice of Internal Auditing, and the IAD Charter, auditors must regularly enhance their knowledge, skills, and other competencies through continuing professional development. Audit standards require practicing internal auditors attend, at minimum of 40 continuing professional education credits every 2 years. 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. Most training is obtained through the Institute of Internal Auditors (IIA), the global association for the profession of internal auditing, and most virtual trainings have been complimentary.

All training hours met the requirements of Continuing Professional Education (CPE) and earned CPE credits. These highlighted trainings are in addition to mandatory IEUA Safety Trainings and other Agency training related to finance, procurements, etc. During this quarter, IA staff attended the following:

- April: the Manager and a Senior attended a full-day, in-person conference titled "Tools for Auditors" and provided 8 sessions in fraud, ethics, cybersecurity, data analytics and more. The education event was hosted by the IIA Inland Empire Chapter and took place at the Agency's facilities. The IIA-IE appreciates IEUA for the opportunity to host onsite, this was the chapter's first in person event in over two years and had a record attendance of over 45 attendees.

- April: one Senior attended the 3-day, in-person annual ISACA (Information Systems Audit and Control Association ®) Conference in Los Angeles. The training provided various sessions related to information technology audits, risks, and trends.

- April: the Manager attended IIA's Leadership Conference in Florida. The conference attracted over 300 IIA chapter leaders from around the country, included valuable sessions related to leadership and all the latest trends of the IIA and internal auditing as well as resources for professional auditors.

- May: the Manager and one Senior attended a 6-hour, virtual training hosted by 5 IIA chapters and provided education sessions in cybersecurity, technology, data analytics, internal controls and more.

All members of the IA team participate in the local chapters of the IIA in an officer/board capacity. All members of the IA team have various certifications and higher degrees as required by the IIA standards and the Charter.

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, September 12, 2022 - Regularly Audit Committee Meeting*
- *Monday, December 5, 2022 – Regularly Scheduled Audit Committee Meeting*
- *Monday, March 6, 2023 – Regularly Scheduled Audit Committee Meeting*

A Step-by-Step Guide to Doing an Internal Audit of Your Supply Chain

While all facets of the modern business are important, arguably the most important to any retail, manufacturing, or goods based service is their supply chain. The supply chain serves as the backbone of these companies and has a significant impact on the company's business strategy which directly affects its operation and operational costs. Additionally, the performance of the supply chain has a direct impact on a company's ability to provide services to their customers and create additional value via services offered or simply through reliability. With the multitude of changes that have been occurring within the logistics, trade, and freight industries now, more than ever, is an opportune time to conduct or review the process of internal audit of your supply chain.

An internal supply chain audit is one of the most powerful methods of evaluating and possibly improving your supply chain, reduce operations costs, and increase competitive advantages.

An internal supply chain audit is one of the most powerful methods of evaluating and possibly improving your supply chain, reduce operations costs,

and increase competitive advantages. The goal of the internal audit is to help you find weaknesses within your supply chain and correct pain points, bottlenecks to increase supply chain flexibility, agility, and overall efficiency. To make the most out of your audit and its results, it's important to understand that the supply chain isn't a stand-alone, isolated feature of your business. In all actuality, the supply chain is suffused in every aspect of your business. As such the supply chain needs to be viewed between all participating companies and suppliers throughout the supply chain, with solutions applied from a holistic approach.

Why an Internal Audit is Necessary for Your Supply Chain

For most companies, audits are typically part of the normal routine, either for financial records or for physical inventory. The entire purpose behind an audit is to make sure things are where they should be and that everyone is playing by the same rules. "Internal auditing is defined as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes," as defined by The Institute of Internal Auditors (IIA).

This is especially important when trying to maintain retail compliance, for example, with increasing customer demands like On Time; In Full (OTIF) or Must Arrive By Date (MABD).

Simply put, an internal audit is a multi-step process that is a means of determining whether your current systems and operations are in compliance with your company's predetermined operating procedures and regulations. This is especially important when trying to maintain retail compliance, for example, with increasing customer demands like On Time; In Full (OTIF) or Must Arrive By Date (MABD). Conducting an internal audit does more than just evaluates the supply chain, it also takes a necessary look at the interaction between other aspects of the organization such as the accounting and financial systems, practices, and procedures. For example, are your planners and purchasers communicating properly, not only with each other but with the production floor and shipping department? Are parts coming in with enough lead time that items can be manufactured and shipped according to customer requirements? An internal audit is important because it allows the company executives and logistics decision makers to examine the effectiveness of their business operations and controls and applications of

new policies. Over time, establishing those best practices means a more competitive and more profitable company in the future.

Things to Consider Before you Start the Audit

Performing an audit is one thing, but knowing what areas you need to be focusing on is something else entirely. While every audit should be more or less tailored to the specific needs of an individual organization, here is the basic framework for initiating an audit that needs to be included:

- **Audit Planning:** Internal auditors should have a plan in place well before the actual auditing begins.
- **Examining and Evaluating Information:** Internal auditors should have a standardized criterion to compare findings against.
- **Communicating Results:** Audit should have a clear and concise method of reporting their findings.
- **Follow Up:** Internal auditors should follow up in a timely manner to ensure that appropriate actions have been taken to correct audit findings.

This framework also serves as a support system for corporate managers and allows managers of larger production systems to delegate the oversight of the audit to the internal audit department. This is important for a few reasons:

- **Operating Complexity:** Automated data processing has increased the levels of complexity when analyzing data, a task better suited for those who know what to look for.
- **Decentralization:** Given that supply chains are prone to be decentralized in terms of a physical location due to globalization.
- **Lack of Expertise:** As the adage goes, stick to what you know. Leave those auditors in charge of the audit for the best quality audit.

With the right framework in place for the audit to commence, let's take a look at the tasks involved for the actual audit.

Supply Chain Structure and Internal Audit Tasks

Like we mentioned above, every company is different and, as a result, the needs for every individual supply chain will vary. So while there is no hard and fast or "Use audit 'A' for Supply chain system '1' " convenient method of doing things, there are some common focal points that are applicable for just about every organization and style of the supply chain. The supply chain management processes identified by The Global Supply Chain Forum are:

- Customer Relationship Management
- Supplier Relationship Management
- Customer Service Management
- Demand Management
- Order Fulfillment
- Manufacturing Flow Management
- Product Development and Commercialization
- Returns Management

All of these processes are hallmarks of a healthy supply chain and also indicative of the successful supply chain management. Here again, we can see all of the links that connect the supply chain to every other facet of the business. Another benefit to performing an internal audit is that offers to perfect opportunity to increase the synergy between these various departments. For CFO's and supply chain leaders, this means that supply chain management deals with total business excellence and represents a new way of managing the business and relationships with vendors, suppliers, and partners. An internal audit can help a company in finding answers to crucial questions about managing success factors of supply chain excellence, of which these can be divided into five main sections:

- **Strategy** – To determine if the enterprise has a clear strategy tuned to business expectations and focused on profitably servicing customer requirements
- **Organization** – To determine if an effective organization structure exists enabling the enterprise to work with its partners to achieve its supply chain goals
- **Process** – To determine if the enterprise has excellent processes for implementing its strategy, embracing all plan-source-make-deliver operations
- **Information** – To determine if the enterprise has reliable information and enabling technology to support effective supply chain planning, execution, and decision-making
- **Performance** – To determine if the enterprise is managing supply chain performance in ways that will increase the bottom line, cash flows and shareholder returns

Supply Chain Risk Management

As much as we wish we could, the ability to see and accurately predict the future still eludes us to this day. In the end, it all comes down we can optimistically refer to as an "educated guess". With that being said, even the

most educated guesses can't predict the weather or a broken down truck. This means that within every supply chain, there will always be an element of risk. That risk represents any number of things that can go wrong within your supply chain and halt or delay your shipments. For this very reason, risk management is incredibly important when evaluating your supply chain.

An internal audit can provide business leaders with the necessary framework to develop an appropriate supply chain risk management program.

Risk management is a huge proponent of supply chain health, especially given the instabilities in the global marketplace created by political uncertainty, trade tariffs, etc. An internal audit can provide business leaders with the necessary framework to develop an appropriate supply chain risk management program. This is how your supply chain audit can also help with risk reduction and increased security:

- Reviewing and understanding supply chains, including their strengths and weaknesses, in developing markets, to validate monitoring programs
- Working with the company's supply chain specialists to help develop a monitoring process that can be repeated
- Helping to identify which suppliers are critical
- Assessing which suppliers may be vulnerable to threats and helping draw up a residual mitigation profile
- Identifying strong risk control procedures
- Helping to develop key analytic tools and techniques
- Aiding with compliance monitoring

Ideally, the risk mitigation will also allow companies to increase supply chain efficiency to the point where on hand stock can be reduced. While having excessive stock might create a buffer in time where shipments are running late or capacity is tight, that excess can also eat into company profit margins. Additionally, having a well-running supply chain vastly lowers the chance for disruptions, operating costs, and other unexpected costs such as chargebacks, detention fees.

Despite the cause, however, the results are often the same, a drastic slow down of operations and a huge impact on customer satisfaction and profitability.

Supply chain management is a very complex structure of activities with cross-functional processes, and it presents one of the most important functions in

the company since it is directly linked to all functions of the company. Supply chain problems can result from any number of things including natural disasters, labor disputes, supplier bankruptcy, an act of war or terrorism, systems breakdowns, procurement failures, and other causes. Despite the cause, however, the results are often the same, a drastic slow down of operations and a huge impact on customer satisfaction and profitability. The supply chain internal audit aims to support managers in process optimization and above all in cost reduction which result from an uncertain environment by evaluating and directing management towards approaches which will prevent or reduce negative effects. After analyzing definitions and some of the standards of internal audit, it can be concluded that this process can improve effectiveness and efficiency, and by that, the performances of many functions within the organization. High-impact supply chains are more competitive and are capable of winning market share and customer loyalty, creating shareholder value, extending the strategic capability and reach of the business. Independent research shows that excellent supply chain management can yield:

- 25-50% reduction in total supply chain costs
- 25-60% reduction in inventory holding
- 25-80% increase in forecast accuracy
- 30-50% improvement in order-fulfillment cycle time
- 20% increase in after-tax free cash flows

To increase supply chain strength, agility, and overall integrity, companies should develop a framework for a structured approach to ongoing risk identification and management. This will enable businesses to proactively address organizational supply chain risks on a periodic basis – a practice that affords stronger company and brand protection against supply chain risk gaps.

[1] *A step-by-step guide to doing an internal audit of your supply chain* . BlueGrace Logistics. (2021, June 14). Retrieved May 3, 2022, from https://mybluegrace.com/bluegrace-logistics/a-step-by-step-guide-to-doing-an-internal-audit-of-your-supply-chain/

SUPPLYCHAIN
MANAGEMENT REVIEW

Top 5 supply chain risks for 2022

Report from Everstream Analytics provides detailed supply chain risk factors and mitigation recommendations for 2022.

By Gary Forger · January 17, 2022

The top 5 supply chain risks that global companies should prepare for in the next 12 months are detailed in the Everstream 2022 Risk Report from supply chain risk analytics provider Everstream Analytics (http://www.everstream.ai/).

"Pandemic shortages have revealed the global supply chain's fragile interdependence, pushing companies in every industry toward comprehensive risk assessments and flexible response plans," said Julie Gerdeman (https://www.linkedin.com/in/juliegerdeman), Chief Executive Officer, Everstream Analytics. "We developed the Everstream 2022 Risk Report to provide advice and commentary on where to double down on risk mitigation efforts to keep supply chains stable."

Below is a quick summary of the top five supply chain risks for 2022. For the expanded analysis, please download the full report here (https://www.everstream.ai/risk-center/special-reports/2022-outlook-supply-chain-risk-trends/?utm_medium=referral&utm_source=press%20release&utm_campaign=sr%202022%20annual%20risk%20report).

1. **Worldwide Water Instability:** Two thirds of the global population will face water shortages by 2025. A steady water supply is necessary for production and cooling equipment for pharmaceuticals, tech products, paper, garments, food processing, and other manufacturing industries.
2. **Ocean Freight Bottlenecks:** Facing record low-inventory levels, strong consumer demand, and ongoing COVID-19 impacts on logistics and workforces, the global ocean cargo industry will continue to suffer from port congestion and delays in 2022.
3. **The Continuously Changing Workplace:** As the Omicron variant of COVID-19 spreads across the world, the risk of infection will force companies to reassess how workplace safety and worker compensation to avoid the risk of long-term disruptions from industrial actions or outbreaks of disease.
4. **Just-in-Time Shifts to Just-in Case:** As the pandemic exposed flaws in "just in time" inventory systems, businesses have been exploring a shift to the "just in case" model, increasing buffer and safety stocks of critical components or best-selling products.
5. **Increased Regulatory Scrutiny:** Sustainability disclosure and reporting requirements for businesses continue to gain momentum amid scrutiny from governments, investors, and customers alike. Further regulations impacting global supply chains will likely be enacted in 2022.

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