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

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

MONDAY, SEPTEMBER 12, 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. 2022-9-2, ADOPTED BY THE IEUA BOARD OF DIRECTORS ON SEPTEMBER 7, 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 Jeanina Romero at jromero@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 ITEM**

   A.   **MINUTES**
   Approve Minutes of the June 6, 2022 Audit Committee meeting.

2.   **INFORMATION ITEMS**

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

   B.   **STATUS UPDATE – REVIEW OF PROCURE TO PAY PROCESSES FOR MATERIALS AND SUPPLIES (WRITTEN/POWERPOINT)**

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

   D.   **WAREHOUSE ANNUAL PHYSICAL INVENTORY AND MONTHLY CYCLE COUNTS (WRITTEN/POWERPOINT)**

   E.   **WATER USE EFFICIENCY PROGRAMS AUDIT – FOLLOW-UP REVIEW (WRITTEN/POWERPOINT)**

   F.   **INTERNAL AUDIT DEPARTMENT QUARTERLY STATUS REPORT FOR SEPTEMBER 2022 (WRITTEN)**

3.   **AUDIT COMMITTEE ADVISOR COMMENTS**

4.   **COMMITTEE MEMBER COMMENTS**

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

ADJOURN

<div align="center">**DECLARATION OF POSTING**</div>

I, Jeanina Romero, 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) 993-1847 or jromero@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, JUNE 6, 2022
9:00 A.M.

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

STAFF PRESENT
>   Brandon Gonzalez, Technology Specialist I
>   Daniel Solorzano, Network Administrator

STAFF PRESENT via Video/Teleconference
>   Shivaji Deshmukh, P.E., General Manager
>   Christiana Daisy, P.E., Deputy General Manager
>   Javier Chagoyen-Lazaro, Acting Assistant General Manager
>   Deborah Berry, Controller
>   Denise Garzaro, Board Secretary/Office Manager
>   Warren Green, Manager of Contracts & Procurement
>   Don Hamlett, Director of Information Technology
>   Jennifer Hy-Luk, Administrative Assistant II
>   Randy Lee, Director of Operations & Maintenance
>   Laura Mantilla, Executive Assistant
>   Sapna Nangia, Senior Internal Auditor
>   Salvador Rodriguez, Senior Internal Auditor
>   Jeanina Romero, Executive Assistant
>   Teresa Velarde, Manager of Internal Audit

OTHERS PRESENT via Video/Teleconference
>   Travis Hickey, Audit Committee Advisor
>   Nitin Patel, CliftonLarsenAllen LLP

Committee Chair Steven J. Elie called the meeting to order at 9:06 a.m. He gave the public the opportunity to comment and provided instructions for unmuting the conference line.

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

1A – 1B. ACTION ITEMS
The Committee:

◆   Approved the minutes of the March 7, 2022 Audit Committee meeting.

♦ Recommended that the Board approve the FY 2022/23 Annual Audit Plan; and directed the Manager of Internal Audit to implement the FY 2022/23 Annual Audit Plan; as a Consent Calendar item on the June 15, 2022 Board meeting agenda.

2A – 2F. INFORMATION ITEMS
The following information items were presented, or received and filed by the Committee:

♦ FY 2021/22 Financial Audit Engagement Communications
♦ Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Professional Services – Planning & Resources
♦ Interim Audit Report: Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Materials and Supplies
♦ Progress Update for all Procure to Pay Audit Recommendations
♦ Report of Open Audit Recommendations
♦ Internal Audit Department Quarterly Status Report for June 2022

3. AUDIT COMMITTEE ADVISOR COMMENTS
Audit Committee Advisor Travis Hickey had no comments.

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: SEPTEMBER 12, 2022

INFORMATION
ITEM
2A

Date: September 21, 2022

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

09/12/22

Committee: Audit

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Accounts Payable Operational and Internal Control Audit Report - Review of Procure to Pay Processes for Home Depot Credit Cards

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Executive Summary:

Internal Audit (IA) staff completed an evaluation of the procure to pay (P2P) process for the Agency's Home Depot credit cards. The objective of the audit was to evaluate the ordering, receiving, and processing of payments, to identify problems and bottlenecks in the payment processes, pay Home Depot invoices timely, minimize and eliminate credit holds placed by the vendor, and propose recommendations to make the process more efficient. This audit noted there are over 30 Home Depot credit cards issued to Agency employees. In the previous two fiscal years, the Agency has spent approximately $50,000-$60,000 in purchases with Home Depot. IA's review notes that the current Home Depot credit card program is not effective because the cards are often placed on credit hold and employees are often turned back from the stores. IA identified several issues with the administration of the program and makes recommendations for efficiencies. The Agency has already initiated steps to phase out the Home Depot credit cards and absorb the purchases through the use of the procurement card program, as recommended by IA in 2018. The attached report provides details of the observations and several recommendations to improve the Home Depot credit card program if the Agency decides to continue using Home Depot credit cards for Agency purchases.

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:

Not Applicable

Fiscal Impact (explain if not budgeted):

Not Applicable

Prior Board Action:

On June 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 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 Home Depot Credit Cards is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Accounts Payable Operational and Internal Control Audit Report - Review of Procure to Pay Processes for Home Depot Credit Cards
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: September 1, 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 Home Depot Credit Cards**

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) has performed an audit of the Procure to Pay (P2P) Processes related to the Agency's Home Depot Credit Card program (HDCC). The audit was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2022/2023 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 Agency's departments and the Accounts Payable (AP) Group within the Accounting Unit of the Finance Department, to determine whether Agency policies and department-specific standard operating procedures were established and to identify areas for improvement. The scope of the review of P2P HDCC is to evaluate the processes for purchases, ordering, receiving and payments, to identify issues and bottlenecks in the process to pay the Home Depot invoices timely, minimize, and eliminate credit holds placed on the Agency by the vendor, and propose recommendations to make the process more efficient.

The specific audit objectives were to:
- Determine compliance with Agency policies and department procedures
- Evaluate internal controls
- Evaluate the receiving function
- Evaluate the timeliness of payments
- Evaluate the efficiency of the payment processes
- Identify inefficiencies in the processes
- Evaluate the use of technology and reporting tools
- Identify operational efficiencies and opportunities for improvements

Water Smart - Thinking in Terms of Tomorrow

Steven J. Elie	Michael Camacho	Marco Tule	Jasmin A. Hall	Paul Hofer	Shivaji Deshmukh
President	Vice President	Secretary/Treasurer	Director	Director	General Manager

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.

- <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.

- <u>Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Planning and Resources (dated May 25, 2022)</u> This report evaluated the Procure to Pay Processes related to Professional Services administered by Planning and Resources. IA provided 11 recommendations: Planning and Resources (6), CAP (2), and the Accounting unit (3 plus 8 restated from prior audit reports).

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 payment processes related to other departments' goods and services. A separate audit report will be finalized after the completion for each area reviewed.

<u>Audit Techniques applied:</u>
- Interviews of Agency staff
- Review of Agency policies and procedures
- Review of Standard Operating Procedures (SOPs)
- Evaluation of internal controls
- Review and analysis of financial transactions
- Review of supporting documents

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

IA has provided sixty-seven (67) recommendations through the prior P2P audits to improve efficiencies in the procure to pay processes throughout the Agency. Additionally, through the General Manager's Strike Team and other Leadership Team initiatives, additional efficiencies and improvements are being implemented to improve procure to pay processes, while IA continues to work on additional P2P audits.

The P2P Review of the Home Depot Credit Card program (P2P HDCC) was selected because the Agency is frequently placed on "Credit Hold" due to late payments and non-payments. A "Credit Hold" is when users are not able to make purchases because the account is placed on hold due to constant late payments. Being placed on credit hold has been a serious problem causing work delays, wasted staff time, inefficiencies, and staff embarrassment and discomfort when purchases are declined at the Home Depot stores. For these reasons, the P2P HDCC was selected for completion.

This audit report provides the results and recommendations related to IA's Review of the HDCC. For the purposes of this audit, the "Home Depot Credit Card program" refers to all purchases made through Home Depot and the cards issued to Agency employees that are used to make credit purchases only at Home Depot stores and website.

In FY 2020/21 and 2021/22, IEUA and IERCA spent combined, $60,769 and $50,490, respectively, and AP processed approximately 200 (IEUA only) HD transactions (see the Receiving & Invoice Analysis for Home Depot Purchases section later in the report).

IA is providing 7 recommendations to improve efficiencies and ensure payments are made timely in the following areas.

Department Name	Summary of Observation/Recommendation
CAP	In 2018, IA recommended the Agency consider consolidating all the credit card programs into the Procurement Card program (P-Card). As a result of the on-going P2P audits, the Agency has initiated steps to implement the 2018 recommendation.
All departments administering and using Home Depot Credit-Cards	Home Depot receipts often get lost. CAP receives an electronic copy of the receipt after each purchase, but this was unknown to administrative staff responsible for obtaining purchase receipts to process receiving in SAP. IA suggests departments leverage technology tools and centralize storage of the receipts in one location.
Accounting	There are no guidelines/procedures to require adding key identifying information as part of the receiving function in SAP. IA recommends communicating and clarifying the method and information needed for completing receiving for the Home Depot purchases.
CAP	There is no Agency Policy for the use of Home Depot Credit Cards. IA recommends an Agency policy or clear guidelines for the use of the Home Depot cards.
Accounting	There are no documented procedures for tracking, monitoring, and processing timely payments of Home Depot purchases/transactions.
CAP	CAP should communicate the most efficient procurement method be communicated and implemented for the use of credit card purchases.
CAP & Accounting	There is no periodic review of the Agency's credit card assignments to verify all issuances are to current Agency employees.

This audit report is organized as follows:
- IA's list of findings, observations, and recommendations
- Flowcharts and narratives documenting the current Procure to Pay Process
- Background information about the Home Depot Credit Card program
- Financial data and analysis of transactions selected

Acknowledgements

IA would like to extend our appreciation to the CAP, Operations, Maintenance, Warehouse, Information Technology (IT), and Accounting units for their cooperation and assistance during the audit. IA looks forward to the continued collaboration.

Discussions with Management

IA provided and/or discussed the results contained in the report with Accounting and CAP on August 16 and 17, 2022. Where possible, Department management review comments and responses have been incorporated.

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.

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

TV:sn

Observations and Recommendations
Procure to Pay Process for Home Depot Credit Cards

The prior Accounts Payable Operational and Internal Controls Audit Reports noted: ***Agency invoices are not being paid within the payment terms.*** This problem has been the basis for the scope of IA's Procure to Pay audits. In this audit report, IA provides observations and recommendations related to the Home Depot credit cards.

Delays and/or Challenges in performing the Receiving function are due to:
- *Staff time spent to obtain the receipts and/or back up documentation*
- *Staff time spent looking into and resolving credit holds*
- *No formal guidelines for staff regarding the use of Home Depot credit cards*
- *No formal guidelines to process timely payments to Home Depot*
- *Staff time spent resolving budget and work order items because of coordination, communication, and proper monitoring of work orders to ensure all costs are captured and received timely* (Staff anticipates this will be resolved through establishing the correct procurement instruments as discussed later in the report).
- *No formal guidelines and training for the appropriate receiving process and this leads to delays, errors, reversals, and inaccurate transactions, etc.*

Delays and/or Challenges in processing invoices for payment by the due date:
- *Staff time spent to obtain the receipts and/or back up documentation*
- *Reconciliation and matching challenges due to inaccurate identifying information*
- *No method for accounting for and tracking all invoices and payments due*
- *SAP processing errors, reversal errors, dollar amount adjustments, etc.*
- *No procedures for timely processing of invoices and payments due*
- *Processes and procedures require changes to make them more efficient*
- *There are no documented SOPs for Accounting processes to establish and ensure a consistent, routine, methodology for prioritizing and processing payments*

Risks & Other Challenges for the Agency:

- *Credit hold and purchases declined – after staff spends time on selecting items, staff are informed at the register that the purchase has been "declined" and no purchases can be made until the credit hold is resolved.*

- *Morale - Staff face discomfort and embarrassment when the purchase is declined because the Agency is on credit hold.*

- *Not the Best Value – when the Agency is placed on credit hold, staff are unable to purchase from Home Depot and must purchase the items using other vendors that may not provide the best pricing.*

- *Workarounds & Delays – staff use their own personal funds to purchase the items needed from Home Depot and request reimbursement, or staff assigned a P-Card will utilize the P-Card to make the purchase, or staff will ask another Agency staff member (who is assigned a P-Card) to make the purchase at Home Depot.*

- *Reputation risk - damaged reputation and image of IEUA with vendors.*

The matrix that follows, identifies 7 audit observations and related recommendations corresponding to points in the flowchart (Attachment 2) and the overall process. The matrix also provides information about the impact to the process if the recommendations are implemented. The flowchart illustrates the steps involved in completing the receiving and payment processes for Home Depot credit cards. The financial information and statistics that follow these documents provide additional support for the observations and recommendations identified.

To provide additional context, IA gathered the total spending on the various Agency credit card programs, as follows:

IEUA and IERCA's Credit Card Programs										
Credit Card	**Vendor**	**Agency Policy**	**Number of Cardholders (as of June 30, 2022)**		**Total Number of Credit Cards**	**FY 2021 (as of August 18, 2022)**		**FY 2022 (as of August 18, 2022)**	
			IEUA	**IERCA**		**IEUA**	**IERCA**	**IEUA**	**IERCA**
P-Card *(Visa)*	US Bank (Purchasing Card Program)	A-89 January 26, 2016	17	3	20	$204,304	$15,076	$320,488	$48,533
Agency Credit Card *(Mastercard)*	Bank of America	A-55 May 25, 2015	15	1	16	$62,032	Note 1	$179,238	Note 1
Fuel Card	US Bank (Voyager Fleet Systems)	A-86 February 4, 2013	Information not provided			$96,194	Note 2	$160,594	Note 2
Home Depot	Home Depot Credit Services	None	28	5	33	$39,690	$21,079	$40,483	$10,007
Sam's Club	Sam's Club	None	5	-	5	$180	Note 1	$1,281	Note 1
Totals						$402,400	$36,155	$701,884	58,540

*Source: Agency's financial system (SAP), data pulled on August 18, 2022. Dollar amounts listed are based on the Document Type (ZA or ZC), which is the amount paid/disbursed by the IEUA and IERCA to the Credit Card company(payee).

Note 1 = Amount due is paid under IEUA, IA could not identify any payments to Bank of America under IERCA.

Note 2 = IA was not provided the number of Voyager cards broken out by organization, IA is unable to determine if the amounts paid US Bank Voyager Fleet Systems includes the dollar amounts for IERCA.

Internal Audit's List of Observations and Recommendations:

At the time of our review, the Agency initiated steps to phase-out and eliminate the Home Depot credit cards and absorb the credit program through the P-card program, as originally recommended by IA in the Procurement Card Audit Report, dated March 1, 2018. As of the date of IA's review, August 2022, the Home Depot credit card program is still in practice. These observations and recommendations represent best practices and good internal controls to implement if the Agency chooses to keep part or all of the Home Depot credit program. IA recommends these recommendations be implemented and/or the observations addressed through alternate controls, while the Home Depot credit program continues.

	Dept taking the lead to implement	Observation, Issue, or Idea	Recommendation	Impact on revised/updated process with recommendation being implemented
1	CAP department	***Eliminate the Home Depot CC*** The Agency currently has 5 different credit cards. *For detailed information see the table on the page before*. IA had previously recommended that the Home Depot credit cards be eliminated and absorbed through the P-Card program because of the many benefits of the P-Card program (refer to Procurement Card Audit report, dated March 1, 2018 for details of the observations, recommendations and benefits of the P-Card). The Home Depot credit cards are often placed on credit hold because the Agency does not pay the account in a timely manner.	Consider eliminating the Home Depot Credit Cards and using the Procurement Card instead, to ensure employees are able to purchase items when needed. (As stated in Recommendation # 5 of the Procurement Card Audit Report, dated March 1, 2018)	• Purchases consolidated under one Agency credit card program can be managed and administered by the P-Card Administrator through various access and report tools. • Eliminate credit holds placed on the Agency by Home Depot. • Increased efficiencies, staff time and resources by eliminating wasted time spent traveling to Home Depot and not being able to purchase items. • Purchases at Home Depot with the P-Card do not qualify for any National Cooperative pricing; therefore, the Agency will lose a nominal discount offered through the Home Depot cards.
2	All departments administering and using Home Depot Credit Cards	***Home Depot Receipts*** In some instances, receipts get lost and staff resources are used to locate a copy. Employees from each Agency unit submit the ***in-store Home Depot receipts*** differently to the respective administrative staff for completion of the receiving function in SAP. Some staff provide the physical hardcopy	Department leaders that manage Home Depot credit cards should evaluate if using the iPhone technology to upload the receipts to SharePoint would be the best technology to expedite the receiving in SAP. If the Department leaders determine that using current iPhone technologies to upload to a SharePoint Document Library would	Using and leveraging existing technologies will assist as follows: - Eliminate staff time spent looking for misplaced receipts - Provide a centralized location to house all Home Depot receipts - Expedite receiving in SAP

		receipt while others provide a scanned version via email. Unknown to the administrative staff, CAP receives an email with an electronic copy of the receipt after every purchase is made. CAP had not communicated this information to staff and does not share the electronic copies.	be beneficial (similar to the process utilized by Groundwater Recharge for their Home Depot receipts and the process utilized by Operations staff for uploading the Chemical delivery documentation), then Department leaders should work with IT to setup business processes for the Home Depot receipts to be uploaded and forwarded to the appropriate receiver. CAP should provide the electronic copies of the receipts to administrative staff or place them in a shared folder.	
3	Accounting	**_Key information required as part of the Receiving function in SAP_** There are no formal guidelines or procedures for the administrative staff on what identifying information is required and should be entered into SAP to assist the matching process. Recently, the AP group discovered that there is an _authorization code number_ included on the in-store receipts that assists AP in identifying and reconciling the purchase with the Home Depot online account.	Accounting should take the lead to communicate and provide information and clarity about the method for completing receiving for Home Depot transactions, including, specifying the identifying information required to be included.	Clear guidelines for staff to perform the receiving function accurately with the correct identifying information for each transaction.
4	CAP	**_No Agency Policy for the use of Home Depot Credit Cards_** There is no Agency policy or set of procedures that document guidelines for allowable purchases when using f Home Depot credit cards.	CAP should take the lead to establish clear guidelines or an Agency policy to ensure there are clear guidelines for the use of Home Depot credit cards	Having documented guidelines for receivers and Accounting staff to follow will aid in the timely processing of payments made to Home Depot.
5	Accounting	**_No documented procedures of tracking, monitoring, and processing timely payments of HDCC transactions_** Accounting does not have a best practice, methodology for the various accounting processes that need to be completed. There is no methodology for when and how the Home Depot invoices are obtained, uploaded, tracked, and monitored to ensure payments	Accounting should take the lead to document procedures for uploading, tracking and monitoring Home Depot credit card purchases. Accounting should ensure there is a documented best practice method to account for, track and monitor all payments due to Home Depot to ensure the transactions are matched timely and payments are processed timely to ensure the	Documented procedures ensure a systematic, best practice method is in place for tracking, monitoring and ensuring all payments are reviewed, matched, and processed by the discount dates.

		are made on time. There are no procedures for how and when the 3-way match for HDCC transactions are completed. There are no guidelines for how to track when payments are due or monitor if those payments are paid by the due date or within the early payment discount to ensure the Agency is taking full advantage of all available incentives and discounts. Lastly, there are no procedures to ensure the Agency is never placed on credit hold for nonpayment.	Agency takes advantage of the early payment discount and pays on-time.	
6	CAP department	***Procurement methods*** For Home Depot purchases, IA identified that three Agency units utilized a BPA/BPO procurement method in SAP, while one Agency unit created a PR for each individual purchase, regardless of the dollar amount. Thus, two different procurements methods were being used to process the purchases for the same vendor. *As a results of IA's review, in July 2022, the CAP department asked the unit staff to request a BPA/BPO for the Home Depot purchases going forward starting in FY 2022-23. This method may be more efficient for staff to use instead of creating individual PRs/POs for each HDCC transaction.*	CAP should take the lead to evaluate the most efficient procurement method for HDCC purchases and clarify to all users the process they should all be consistently using.	Establish a consistent procurement method for Home Depot purchases to improve efficiencies
7	CAP department	***Custody and oversight over credit cards*** IA was provided the list of cardholders for each Agency credit card. Having unused and active Home Depot credit cards increases the risk for potential misuse and/or the opportunity for unauthorized purchases. IA review and reconciliation noted the issues listed below.	CAP should take the lead and establish a process to periodically review and reconcile the list of Agency credit cards to the list of current Agency employees, and consider performing the following: - Verify if the card is assigned to an authorized, current Agency employee. - Verify if the card is being used and/or has spending activity.	Periodic reviews of all credit cards assigned, ensure that all Agency credit cards have been properly assigned and are in custody of current Agency employees.

		• 1 Home Depot credit card was assigned to an employee that separated from the Agency in March 2018. ***As a result of IA's audit, the Home Depot card was cancelled in June 2022.*** • 2 Agency employees/ cardholders have 3 credit cards assigned to them (i.e., Agency Credit Card, Home Depot Card, P-Card, and/or Sam's Club) • 11 cardholders have two credit cards assigned to them (i.e. combination of anyone of the Agency's credits cards) **See the Attachment 1 to this report for the detailed table of the credit card assignments.**	- Deactivate/Cancel any cards that are no longer needed and/or not being used by Agency staff, which reduces the risks to the Agency.	
Re sta te d	**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, P2P E&CM audit, and the P2P P&R audit, and according to Accounting, SOPs are currently In Progress and are planned for completion)*	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.
Re sta te d	**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, P2P E&CM audit, and P2P P&R 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.

Flowchart

There are multiple departments/units involved in the Procure to Pay process for the Home Depot Credit Card invoices, including: Contracts and Procurement (CAP), Operations, Maintenance, Groundwater Recharge, Warehouse, and Finance & Accounting (Accounting). IA documented the P2P processes using a flowchart/process diagram, which illustrates the process by department/units and the following narrative is the step-by-step process as confirmed with respective departments/units. (See **Attachment 2** to this report)

Invoice Payment Process for Home Depot Credit Cards

The process to pay for the purchases made at Home depot by Agency staff using the Home Depot card is outlined as follows:

Procure to Pay process for Home Depot Credit Card program administered by Contracts and Procurement

Contracts & Procurement (CAP)

Home Depot Credit Limit is $36,000 (IEUA $18,000 and IERCA $18,000)

1) Agency staff sends in a request for a Home Depot Card using the Support Request (Power app) located on the Agency's intranet (AIM) or the department's administrative staff will send the request via email to the designated CAP staff member.
2) Upon receipt of the request, the CAP staff member confirms approval via email with the Department Supervisor.
   a. If the response is Yes, then the CAP staff member will create the card request in the Home Depot online account.
   b. If the response is No, then the CAP staff member will indicate to revisit this request at a later time.
3) Once the Home Depot card has been requested, the CAP staff member will:
   a. Communicate verbally and/or via email the following information to the employee:
      i. Home Depot card will be mailed within in 7-10 business days to the Agency
      ii. Purchases can be made with the Home Depot card at the retail store and/or online (website)
      iii. Items can also be ordered through the Open Catalog Interface (OCI or Catalog) in SAP
      iv. Processing and/or reconciliation procedures for the Home Depot purchases
      (Note: Home Depot determines the Single Transaction limit and/or Monthly Transaction limit for cardholders, not the designated CAP staff member)
4) For each Home Depot purchase and/or ordered by Agency staff, the CAP staff member receives the following information after each purchase/order:
   a. <u>In store purchases:</u> electronic copy of the receipt via email, which includes date, time, location, details of each item (description, SKU/item number, (if applicable) quantity and price per item), line-item cost, subtotal amount, sales tax amount, receipt total, payment method (last 4 digits of the Home Depot card number), authorization code number, organization (IEUA or IERCA), and employee name.
   b. <u>Online purchases:</u> electronic copy of the receipt via email, which includes date, time, location, customer agreement number, subtotal, sales tax, receipt total and e-deposit amount, payment method (last 4 digits of the Home Depot card number), and authorization code number.
      (Note: Emailed receipt attached to the email notification for online purchases do not include description of the items ordered)
   c. <u>Catalog via SAP:</u> email notification/automated reply that notes Home Depot will keep you informed about your order status.

5) CAP staff member retains all the email notifications with the electronic receipts from Home Depot in an Outlook folder that is set up with a permanent retention policy and is currently not shared with anyone.
6) The CAP department <u>assist with these other duties/responsibilities</u>:
   a. Beginning of each fiscal year, CAP sets up the various procurement methods related to the Home Depot credit cards, including Blanket Purchase Agreement (BPA)/Blanket Purchase Order (BPO), and/or Standard-type Purchase Order (for receiving and paying invoices only) in SAP. Below is a definition of these terms:

   <u>Blanket Purchase Agreement (BPA)</u> – the overall mechanism that establishes the procurement method and tracks all the expenditures against the designated/approved value (similar to a Contract's Not-to-exceed value) in SAP. BPAs and BPOs are vendor specific.

   <u>Blanket Purchase Order (BPO)</u> – simplified and efficient way for Agency departments to buy items they need for daily operations and (expediting) work orders. It is a one-time PR/PO process and staff do not have to create individual PR/POs each time they need to buy something. Staff can order what they need and when they need it. It is an open line of encumbered budget on a PO, to receive and pay invoices. BPO are vendor specific, but not purchase specific. BPO's have a lump sum value assigned. Dollar Threshold is $3,500 or greater and making frequent purchases to this vendor.
   b. Review Agency's departments annually spending to determine appropriate procurement method (i.e., BPA/BPO, PO)
   c. Assists staff with Catalog purchases that require Purchase Requisitions to be generated into Purchase Orders
   d. Assists staff with any SAP issues (as needed and/or required)
   e. Reviews the Agency's Credit Limit, and request increases as required
   f. Circulates via email the Home Depot card processing procedures
   g. Assists staff when notified their purchase has been declined and the Agency is on credit hold
   h. Provides account log-in information, account access and password resets, as required

Operations and Groundwater Recharge – Home Depot Card

Operations
1) Agency staff purchase small tools, consumable, and miscellaneous type of items (unplanned and/or emergency type) from the Home Depot store, and the method utilized to pay for these items is the Home Depot credit card.
2) Agency staff will provide the Home Depot receipts to the department's Administrative staff.
3) Then, the Administrative staff provides the cost center & functional area (general ledger) information to the Warehouse staff with a copy of the Home Depot receipt via email.
4) Warehouse staff performs the Receiving function in SAP for the purchases made by the Operations staff on the Home Depot credit cards.

Groundwater Recharge
1) Agency staff purchase cleaning and housekeeping type of items to maintain the Agency's basins and materials/parts to perform repairs (as required) from the Home Depot store, and the method utilized to pay for these items is the Home Depot credit card.
2) *(New step as of March 2022)* As per implementation of the P2P Chemicals recommendations, Agency staff will utilize their Agency iPhones to take a picture of the Home Depot receipt and upload to the SharePoint site located on the Agency's intranet.
   Note: To upload the receipts to the SharePoint site, it does not require log into VPN, just the Duo App.

3) Administrative will obtain the Home Depot receipts from the SharePoint site and perform the Receiving function (by receiving the purchase against a (BPA/BPO) and attaching an electronic copy of the receipt in SAP.

4) For Groundwater Recharge, Operations Administrative staff will review and monitor the Purchase Orders using the Open PO report, as required.

Maintenance – Home Depot Card

1) Maintenance staff purchase items related to materials, parts, and supplies from Home Depot (at least 1-2 times per week on average) to maintain the treatment plants and/or to fulfill and complete work orders.
   a. <u>Catalog purchases</u> do not require the use of a Home Depot credit card as payment, processed via a PO, and utilize for planned purchases.
   b. <u>In store purchases</u> are paid with the Home Depot card and utilized for purchases whereby the items are not available in the Home Depot SAP Catalog and/or for emergency purchases.
2) For in store purchases, Agency staff provide the Home Depot receipts (either hardcopy/physical or scanned version of the receipt) to the department's Administrative staff. Receipt should include the following information: work order # (if applicable), employee signature and number, and date.
3) (***Process prior to June 2022***) Then, Administrative staff would enter in an individual PR for the Home Depot purchase, regardless of the dollar amount.
4) Upon approval of the PR via workflows (in SAP), CAP generates a PO for Receiving to be performed.
5) (***Process for July 2022 onwards***) CAP has requested for Maintenance staff to request a BPA/BPO (unless expenditures are less than $3,500) for Home Depot purchases at the beginning of each fiscal year.
6) Once the procurement method (BPA/BPO) has been established in SAP, then the department's Administrative staff will perform the receiving function and receive the purchase against a PO (including attaching an electronic copy of the receipt) in SAP.
   (<u>*Note:*</u> *New process will eliminate individual PRs from having to be entered into SAP*)

Warehouse – Home Depot Credit Card

1) Staff purchase inventory and non-inventory items for the Agency's Warehouse located at Regional Plant No. 1. Inventory items are regularly stocked at the warehouse, such as duct tape, bug spray, and so on. Non-inventory items are items needed by other Agency departments.
2) Warehouse staff will order the items needed from the Home Depot website online and request for in store pick up.
3) Warehouse staff will provide hardcopy/physical receipts and/or scanned version of the receipt to the Administrative assistant via email.
   <u>*Note:*</u> *Occasionally, staff will retain the hardcopy receipt and provide a scanned version of the receipt in the event of returns and/or exchanges.*
4) Department's Administrative staff will perform the Receiving function (by receiving the purchase against a BPA/BPO and attaching an electronic copy of the receipt in SAP. The Department's Administrative staff also performs the Receiving function for Home Depot purchases by the Operations staff.
5) Warehouse staff will review and monitor the funding amounts (i.e., amount spent, amounts remaining to be received and/or balance remaining) for the Purchases Orders frequently using the Open PO report and/or any other reports, as required.

Accounts Payable

IA attempted multiple times to confirm the process with Accounting. Below is a description of the process based on IAs prior P2P reviews and meetings.

Home Depot does not mail/email Agency invoices. AP does not have a method for invoice in-take processes as with all other invoices and to track the amounts due.

1) Starting point for processing the Home Depot credit card payments is the Goods Receipt/Invoice Receipt (GR/IR) account query in SAP (transaction code: FBL3N, specified layout). The purpose for using this query is it identifies all the Home Depot purchases/transactions where the "Receiving" process has been performed by the Administrative Assistants, and these transactions are waiting for the three-way match and processing for payment.

2) After the GR/IR report has been generated, then the data/information is sorted and filtered by vendor name.

3) In SAP, AP staff will select a transaction for review in the GR/IR account and perform the following:
   a. Verify the information that has been inputted by the Receiver
   b. Review the receipt/invoice attached under the Purchase Order History tab in the Purchasing module in SAP
   c. Saves a copy of the receipt/invoice using the established file naming convention in the department's shared drive.

4) Next, AP will enter the Home Depot transaction into the "Invoice Held Feature" (transaction code: MIRO – *Enter Incoming Invoice*) in SAP, but only for those that were received by the Administrative Assistants, not all that is owed.

5) Types of information entered: invoice receipt date, invoice date, posting date, (dollar) amount, tax amount, reference number (*new as of 2022: authorization code*), text (description), and PO number. If the PO number is a BPO, then AP must specific the vender that is being paid, which includes the process to look up the payables number (starts with a "1" number and 6 digits in total).

6) After AP has verified the vendor's name and information, then SAP populates all the transactions that are open and awaiting to be processed. Once all the lines items have been generated, AP staff solidify the list to show transactions that are open and awaiting processing only.

7) Then, AP staff will select the transaction for processing, and the SAP system automatically verifies dollar amounts received with the invoice information inputted to ensure they are in balance. AP staff will research and resolve any issues identified as part of the 3-way matching process.

8) After the three-way match has been performed and the transaction is in balance, AP proceeds to finish processing and posting the transaction in SAP. Then, SAP will post the transaction to the general ledger accounts assigned in the financial system and issues a document number (Invoice Receipt number). Once all items have been posted, the GR/IR account (upon refresh) shows the transaction has been processed as indicated by the assigned Document Type.

9) According to AP – once an invoice has been set up, entered, and posted into the financial module – SAP "flags" the items as "not due" or "overdue." For items "not due," SAP will leave the item as an open payable for scheduling of payment to be completed closer to the due date. For items "overdue", payment is automatically scheduled for the next payment cycle.
   Note: The liability is recognized in SAP upon completion of the 3-way match.

10) After all the invoice processing has been completed, AP determines what items will be paid in the SAP system.

11) 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.

12) Once the "Pre-list" has been reviewed then a final list is generated.

13) 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.

Receiving & Invoice Analysis for Home Depot Purchases

For all Home Depot purchases, a ***Receiving*** function must be performed in the Agency's financial system (SAP). The purpose of performing the receiving function is to ensure someone other than the individual who makes the purchase and processes the payment, verifies, and confirms the information of the goods purchased (i.e., quantities received, description, etc.).

In the second quarter of 2022, the IT department developed a report called *Goods Receiving and Invoice Payment Tracker (GRIPT) report*. The purpose of the report is *to measure the number of days it took to perform the Receiving function* and *the number of days it took to pay the vendor invoices and provides an "aging" of the information*. The table below shows the quantity and aging of the receiving transactions:

Receiving function in SAP *(Count of Distinct GR Documents with Days to Receive)* Home Depot Purchases Data as of August 8, 2022				
Number of days to Receive	**FY 2020-21**		**FY 2021-22**	
	IEUA	**IERCA**	**IEUA**	**IERCA**
1-7 days	91	33	115	15
8-14 days	27	10	23	3
15-30 days	37	7	21	5
31-60 days	39	1	10	0
61-90 days	24	1	7	2
90 or more days	20	0	7	7
Totals	***238***	***52***	***183***	***32***

Source: Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2020-6/30/2021, Company Code 1000 and 2000
Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2021-6/30/2022, Company Code 1000 and 2000

Using the data from the GRIPT report, the results note that for both entities combined, 56% for FY2021 and 76% for FY2022, of all purchases were received within 14 days. The receiving improved in FY2022 Agency-wide.

Receiving should be completed within the first 15 days of the purchase date to provide sufficient time for Accounting to process the transactions for payment. Any transactions received after 15 days may not provide a reasonable amount of time to be paid on time.

For the same set of transactions (goods receiving transactions), the *GR Receiving and Invoice Payment Tracker report* also measures the number of days to pay the associated invoices and tracks the number of invoices paid on time and the number of days past due. The table below summarizes the information for invoices:

Vendor Payment Processing in SAP *(Count of Vendor invoices Paid and Past Due)* Data as of August 8, 2022						
	FY 2020-21			FY 2021-22		
	IEUA	**IERCA**	**% of all receiving** *(IEUA & IERCA combined)*	**IEUA**	**IERCA**	**% of all receiving** *(IEUA & IERCA combined)*
Paid on Time	31	44	24%	8	2	5%
Past due 1-30 days (paid one month late)	54	2	18%	16	5	11%
Past due 31-60 days (paid 2 months late)	98	0	31%	33	4	19%
Past due 61-90 days (paid 3 months late)	67	2	22%	64	8	36%
Past due over 90 days (paid 4 months late)	15	1	5%	48	10	29%
Totals	*265*	*49*	*100%*	*169*	*29*	*100%*

Source: Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2020-6/30/2021, Company Code 1000 and 2000
Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2021-6/30/2022, Company Code 1000 and 2000

Using the data from the GRIPT report, the results note that for both entities combined, 24% in FY2021 and 5% in FY2022 of all purchases were paid on time and the remainder were paid late. The payment processes did not improve in FY2022 Agency-wide.

Detailed Audit Testing and Analysis

Using the Accounts Payable Monitoring report for FY 2020/21 and 2021/22 (as of July 14, 2022), IA performed a detailed review and examination to determine the amount of time required for each step in the process to pay for the Home Depot purchase. IA calculated the metrics from the transaction/invoice date to the date paid in the Agency's financial system. Specifically, IA judgmentally selected a total of 20 transactions/invoices from the last two fiscal years (10 transactions per fiscal year, FY 2020-21 and FY 2021-22) for testing. For FY 2022, the transactions were paid between 5 and 126 days late, after the invoice due date. Of the 20 items paid late, IA's review showed the following, observations have been into the recommendations:

- One (1) of the 20 or 5% items tested had the wrong invoice attached in SAP. The invoice attached in the financial module in SAP does not support the amount paid. (Sample No. 2)

- One (1) of the 20 or 5% items tested had no invoice/receipt attached in the financial module in SAP. The in-store receipt was used to perform the Receiving function and available to be viewed in the Purchasing module under the Goods Receipt number in SAP. (Sample No. 13)

- One (1) of the 20 or 5% items tested had a data entry error and the document date (invoice date) was inputted incorrectly. Specifically, the year was entered incorrectly. (Sample No. 16)

- Three (3) of the 20 or 15% items tested had incorrect/inaccurate dates in the document date field inputted during the Receiving process in SAP. Specifically, in the Purchasing module, the incorrect date was entered in the document date field. (Sample No. 2, 17, and 20)

- Eight (8) of the 20 or 40% items tested took longer than 30 days to receive according to the dates recorded in SAP and metrics calculated on the GRIPT report and/or by IA. (Sample No. 1, 4, 5, 8, 9, 13, 14, and 16)

- 16 of the 20 or 80% items tested, the number of days between the completion of the Receiving and processing and posting the payment by AP took longer than 30 days (as late as 125 days). This is an issue related to Accounting not having a systematic and consistent methodology to account for and process Home Depot purchases and payments. (Sample No. 2, 3, 5, 6, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20)

Background Information

The Agency established **Home Depot** as a supplier for staff to purchase the supplies and items needed to maintain the Agency's headquarters buildings, lab, wastewater treatment plants and facilities. Types of items purchased fall into the categories of Electrical, Plumbing, Parts/Materials, Supplies and more.   The Agency utilizes the national Home Depot contract and participates in the program through the following procurement method:

> *"**Cooperative Procurement** shall mean a procurement (i.e. combining of requirements) conducted on behalf of two or more public procurement units in-order to obtain the benefit of volume purchasing, economies of scale, and/or reduction in administrative expenses."*

> *(Source: Procurement Ordinance No. 108 (Establishing and Setting Forth the policies governing Agency authority and dollar limits for best value procurement and procurement-related activities, Section 1, Letter K, adopted on October 16, 2019)*

The Agency is a member of OMNIA Partners (Public Sector), which allows public sector agencies to acquire goods and services at lower cost by combining the nationwide volumes and purchasing power of public agencies through competitively solicited contracts. Organizations that can participate include: States, local governments, school districts, and higher education institutions. Participation allows the Agency to use the Home Depot contract established by Maricopa County, located in Arizona, *Contract Number: 16154, agreement term February 1, 2017 – December 31, 2021 and renewed through December 31, 2026* for Maintenance, Repair and Operating Supplies and Services. Under the cooperative contract, the Agency is able to obtain Home Depot credit cards for its staff to purchase supplies at the Home Depot retail stores and online (website), as well as online ordering through the OCI SAP catalog system.

The Home Depot contract offers its participants a credit card option, which means participating agencies can have Home Depot credit cards issued to the staff and those

cards can be used a payment mechanism (at the point-of-sale register) when making purchases at the Home Depot (brick and mortar) retail stores. The Home Depot credit cards offers the following:

- Quick solution for staff to purchase materials and supplies that are needed to complete work orders in an expedited and/or timely manner.
- Provides a convenient payment method for staff in the field to purchase essential items immediately to address any maintenance issues and/or complete projects and/or repairs.
- Provide an easy, convenient payment option for Agency staff that need to purchase the items right away and do not have the time and/or cannot afford to wait and procure the items through the traditional P2P process, which can include placing the order, waiting for the order to be processed, and for the items to be received.

In 2007, the Agency implemented *SAP* (Enterprise Resource Planning) system, and the Home Depot credit cards have been around since that time. Thus, the Agency has had the Home Depot credit cards for at least 15 years or more.

The Contracts and Procurement Department (CAP) administers the Home Depot contract, and issues the Home Depot credit cards to employees, after a request has been submitted and approved by the Unit/Department Manager.

The Home Depot card is a credit card that can only be used at Home Depot. The Home Depot card is issued in the employee's name and can be used to purchase items sold at their stores only. Purchases can only be made at Home Depot retail stores and/or online (website), or through the Catalog in SAP. Establishment of the Home Depot contract and card is allowed (as Cooperative Procurement) under the Board-approved Procurement Ordinance No. 108. The Agency **does not** have a policy related to the Home Depot credit cards, like with other credit card programs such as the Procurement Card (A-89), Agency Credit Card (A-55), and Refueling Agency Vehicles (A-86).

As of June 30, 2022, there were 33 Home Depot cardholders. Spending limits are established by Home Depot, not the Agency's Home Depot card administrator. The Agency is responsible for making payments for purchases made on the Home Depot credit cards. The issuer of the Home Depot Commercial account is Citibank, N.A.

Rebate Information

For The Home Depot's Incentive Program, the table below shows the rebates that have been paid to the Agency:

The Home Depot's Incentive Program			
Description	Net Sales	Earned Participant Rebate	Percentage
2020 Rebate *(Received March 2021)*	$50,542.85	$1,010.86	2%
2019 Rebate *(Received March 2020)*	$52,831.77	$1,056.64	2%

Source: Agency's financial system (SAP), IEUA – Company 1000,
General Ledger Account Miscellaneous Other Revenue (499010)
Note: IA could not locate any rebate information for Home Depot under Company Code 2000.

According to the remittance information, the program participants earn a 2.0% rebate of net qualifying sales for a 12-month period. IA is unable to determine if the rebates received apply to both, IEUA and IERCA, or just IEUA alone.

Home Depot Account Information

The Home Depot online account lists the Agency's current balance, available credit, yearly and lifetime spending, annual early pay discount earned, and ages the invoices into 5 different categories (current invoices, 1-29 days aging, 30-59 days aging, 60-89 days aging, and 90 + days aging). Table below summarizes the information in the Home Depot online account:

Home Depot Online account Amounts are inclusive of all purchasing methods (Catalog (PR/PO), credit card – in store/online) Data as of August 11, 2022 [1]			
Description	IEUA	IERCA	Totals
Year-to-date Spend [1]	$ 24,101.49	$ 12,637.34	$ 36,738.83
Year-to-date EPD [1]	$ 97.26	$ 3.39	$ 100.65

Source: The Home Depot® Commercial Account (online website/portal). EPD = Early pay discount
(1) Amounts will fluctuate on a daily basis and depends on spending activity.

As of the beginning of August 2022, approximately $100 has been saved by paying certain invoices by the discount due date. *Early Pay Discount (EPD)*, the Agency earns a 2% discount on the invoice total (excluding sales tax) if the invoice is paid within 20 days of the transaction date. In the Home Depot online account, there is no information about the early pay discount for prior years.

Number of Home Depot Cardholders by Department

On June 30, 2022, the Agency had a total of 33 active Home Depot credit cards issued to staff. The table below shows the distribution among the Agency units/departments:

Agency Department	Number of Cards Issued
IEUA	
Contracts and Procurement	2
Engineering	4
External & Government Affairs	1
Facilities & Water Systems Programs	7
Maintenance	5
Operations	6
Planning & Resources	2
IERCA	5
Home Depot card issued to separated employee	1
Total number of Home Depot credit cards issued	**33**

Source: CAP department

Home Depot Locations

The table below lists the Home Depot locations visited by Agency staff

Home Depot Store locations
Frequently visited (daily)
• 14549 Ramona Avenue, Chino, CA
• 2980 S. Euclid Avenue, Ontario, CA
• 11884 Foothill Blvd, Rancho Cucamonga, CA
Occasionally visited (1 to 2 twice)
• 6140 Hamner Avenue, Eastvale, CA
• 16783 Santa Ana, Fontana, CA
• 38215 47th Street East, Palmdale, CA
• 250 Santa Mountain, Upland, CA
• 1401 E. 19th Street, Upland, CA

Source: CAP department

<u>Home Depot Contract and Credit Cards & Procurement Cards</u>
IA provides advantages and disadvantages of both types of cards.

<u>Sources:</u> CAP Department, IA's *Procurement Card Audit Report* (issued March 1, 2015), State of California Department of General Services Procurement Division website

Home Depot Contract and Credit Cards	Procurement Cards (P-Cards)
Advantages (Pros): Credit Cards • Home Depot credit card is used a payment method for in store purchases, order online and pick up in store, curbside pick and/or delivery • Rebate (Cash back) is tied to the in store and homedepot.com purchases when the Home Depot credit card is used as the payment method • Two percent (2%) early payment discount (EPD) is available if the invoices are paid within 20 days of the transaction date. *Note: discount is only applied to purchase subtotal (excluding sales tax).* • Procedures for the purchases at Home Depot follow the Procure-to-pay processes in SAP with all the steps occurring before payment is made to Home Depot. For example, Purchase Requisition, Purchase Order, 3-way matching, uploading supporting documentation, and so on. *Contract* • Offers Open Catalog Interface in the Purchase module in SAP • Provides lower prices on goods and more cost-effective than other alternative vendors	*Advantages (Pros):* • VISA Card can be used at any establishment (not vendor specific), unless specifically restricted by administrator and/or US Bank • P-card program was established at the Agency via Policy A-89 and provides guidelines to cardholders on its use. • Convenient, easy to use, provides flexibility, and assists with the purchases of goods when needed, required and/or for urgent/emergency situations • IT department can utilize the P-Card as a payment method for regular/reoccurring IT related services, such as licenses, subscriptions, renewals, and so on • Can be utilized as a payment method for in store, phone, and/or internet orders • Merchant receives prompt payment when the P-Card is used from US Bank and does not have to wait for payment. • Prompt payment and volume sales incentives (rebates), cash back to the Agency • Access to mobile app and web-based management solution that provides training, online tools, standard and ad-hoc management reporting.
Home Depot Contract and Credit Cards	**Procurement Cards (P-Cards)**

Disadvantages (Cons): Credit Cards
 	
• Department store specific, card can only be used at Home Depot only
• Per a specific Agency department, the Home Depot card requires too much staff and administrative time to make this program function
• Home Depot credit card account is frequently on credit hold, per Agency staff
• No formal documented Agency policy OR processing procedures for Home Depot purchases
 	
Contract
 	
• Home Depot Contract offers Open Catalog Interface in SAP, but has the following issues:
  - does not carry all products available at the Home Depot store, thus requiring multiple trips by staff to the store to make purchases on the Home Depot credit card
  - requires a PO to be issued, which can delay the acquisition process for needed parts
  - does not work in emergency situations
	Disadvantages (Cons):
	
	• Agency's current P-card reconciliation process, staff must manually complete an excel spreadsheet to reconcile the transactions, including inputting the corresponding general ledger account assignments, date, amount, and so on
	• Supervisors must manually review and approve the P-Card reconciliation spreadsheets
	• P-Card reconciliation spreadsheets and supporting documentation (i.e., back up receipts) must manually be upload to the Agency's shared drive
	• Cardholders do not always complete the P-Card reconciliation in a timely manner
	• Outdated Agency Policy Number A-89 (Procurement Card Program) that provides guidelines for the proper use of P-cards
	• P-Card administrator role needs to be clarified and expanded to include greater oversight responsibilities to ensure compliance, per Recommendation # 2 in the Procurement Card Audit Report (dated March 1, 2018)
	• Processing fees may be incurred if the P-card is utilized to pay for goods to vendors/suppliers

Attachment 1:

Organization	This Employee is currently assigned to the following Department/Unit Name	Agency Credit Card Bank of America	Home Depot Card	P-Card	Sam's Club
Table below identifies if employees have 1 or more Agency's credit cards assigned to them List of Cardholders assigned to Agency staff as of June 30, 2022:				
IERCA	Organics Management (IERCA)	✓	✓	✓	-
IEUA	Finance - CAP	-	✓	✓	✓
IEUA	Operations	✓	✓	-	-
IEUA	Human Resources	✓	-	✓	-
IERCA	Organics Management (IERCA)	-	✓	✓	-
IERCA	Organics Management (IERCA)	-	✓	✓	-
IEUA	External Government & Affairs	-	✓	✓	-
IEUA	Maintenance	-	✓	✓	-
IEUA	Maintenance	-	✓	✓	-
IEUA	Maintenance	-	✓	✓	-
IEUA	External Government & Affairs	-	-	✓	✓
IEUA	External Government & Affairs	-	-	✓	✓
IEUA	Finance - CAP	-	-	✓	✓
IEUA	Administration Division	✓	-	-	-
IEUA	Administration Division	✓	-	-	-
IEUA	Board Office and Agency Management	✓	-	-	-
IEUA	Engineering	✓	-	-	-
IEUA	External Government & Affairs	✓	-	-	-
IEUA	Finance	✓	-	-	-
IEUA	Human Resources	✓	-	-	-
IEUA	Human Resources	✓	-	-	-
IEUA	IT	✓	-	-	-
IEUA	Maintenance	✓	-	-	-
IEUA	Operations & Maintenance	✓	-	-	-
IEUA	Technical Resources Division	✓	-	-	-
IEUA	Technical Resources Division	✓	-	-	-
IERCA	Organics Management (IERCA)	-	✓	-	-
IERCA	Organics Management (IERCA)	-	✓	-	-
IEUA	Engineering	-	✓	-	-
IEUA	Engineering	-	✓	-	-
IEUA	Engineering	-	✓	-	-
IEUA	Engineering	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Facilities & Water Systems Programs	-	✓	-	-
IEUA	Finance - CAP	-	✓	-	-
IEUA	Maintenance	-	✓	-	-
IEUA	Maintenance	-	✓	-	-
IEUA	Operations	-	✓	-	-
IEUA	Operations	-	✓	-	-
IEUA	Operations	-	✓	-	-
IEUA	Operations	-	✓	-	-
IEUA	Operations	-	✓	-	-
IEUA	Planning & Resources	-	✓	-	-
IEUA	Planning & Resources	-	✓	-	-
IEUA	External Government & Affairs	-	-	✓	-
IEUA	Facilities & Water Systems Programs	-	-	✓	-
IEUA	Facilities & Water Systems Programs	-	-	✓	-
IEUA	Finance - CAP	-	-	✓	-
IEUA	IT	-	-	✓	-
IEUA	IT	-	-	✓	-
IEUA	IT	-	-	✓	-
IEUA	Maintenance	-	-	✓	-
IEUA	*Employee Separated in 2018*	-	✓	-	-
IEUA	Board Office and Agency Management		-	-	✓ *(separated July 2022)*
Totals (as of June 30, 2022)		**16**	**33**	**20**	**5**

Summary:
- 1 cardholder had an active Home Depot card and separated from the Agency in 2018.
- 2 cardholders have 3 credit cards assigned to them
- 11 cardholders have two credit cards assigned to them
- 1 cardholder separated in July 2022, after IA's initial review in June 2022 and is included in the list above.

Attachment 2
Flowchart – Procure to Pay Processes for Home Depot Credit Cards

Agency staff will work with CAP as required to address

Maintenance

Process described below is prior to July 2022

Agency staff

Purchase is made at Home Depot by staff
(in store)

Payment method is Home Depot card

Home Depot receipts

Home Depot Receipts are scan & sent electronically via email to Admin Assistant & placed in a folder OR physical receipts are placed in folder & Admin Assistant will scan in the receipt

Enters a Purchase Requisition (PR) for each *individual* Home Depot purchase

Administrative Assistant

PR → PO

Upon PR approval, CAP generates Purchase Order

Administrative Assistant performs Receiving function in SAP

SAP

*Starting in July 2022 (FY2022-23), Maintenance staff has been informed to request a BPA/BPO (Standard Receiving PO) for Home Depot purchases, which will be tied to the Home Depot Blanket Purchase Agreement. This change will allow the elimination of having to input individual PR's for each Home Depot purchase.*

The change in the procurement method, from individual PRs to BPA/BPO, occurred as a result of discussions during our audit.

Other issues/challenges

Purchase declined & Credit Hold: Staff are informed purchased was declined & Agency is on Credit Hold

Workarounds: Staff using their own funds & requests employee reimbursement OR another staff member with P-Card will go & make the purchase from Home Depot when the purchase was declined and/or Agency is on Credit Hold

Credit Hold period: Time it takes to review and resolve the Credit Hold and/or account status can take up to 2-3 weeks to address. During this time, Staff cannot make purchases with the Home Depot card.

Work Orders: Home Depot receipts are received after the work order has been closed (usually on the same day), the WO would need to be reopened to capture the costs before a PR is entered. (Prior issue)

Morale: Staff face embarrassment when the purchase is declined and impacts their confidence

Warehouse

Agency staff

Inventory Items – regularly stocked at the Warehouse
Non-inventory – items - needed by other Agency departments

Order items needed from Home Depot online for in store pick up

Home Depot Receipts (hardcopy/physical or scan & send electronically)

Administrative Assistant

PR → PO

Blanket Purchase Order Agreement Warehouse staff enters a PR < attaches paperwork/documentation < CAP generates PR into Open PO

Administrative Assistant performs Receiving function in SAP

SAP

Home Depot is more cost effective & cheaper than alternative vendors. When purchasing from Home Depot, items are readily available whereas with alternative vendors take between 3 days to a week to deliver the items.

Other issues/challenges

Lost/Misplaced Receipts: Staff are unaware until invoices come from AP that state there was a purchase but no receiving was completed. Then, staff have to locate the receipts.

Purchase declined & Credit Hold: Staff are informed purchase was declined & Agency is on Credit Hold. Staff have to walk-away from the items that were selected and/or ordered.

Alternative vendors: In the interim, Staff have to use other vendors until the Agency's account is in good standing and can purchase again from Home Depot

Morale: Staff face embarrassment when the purchase is declined and impacts their confidence

GWR

Agency staff

Purchase is made at Home Depot by staff
(in store)

Payment method is Home Depot card

Home Depot Receipts Provide to Administrative Assistant electronically

New step as of March 2022: Staff utilized Agency iPhones to take a picture of the Home Depot receipt and upload to SharePoint site.

Administrative Assistant will perform Receiving function in SAP and receives against Open Purchase Order

Administrative Assistant
Receiving

Administrative Assistant performs cursory review and/or monitoring of Open Purchases Order (uses open po report)

Other issues/challenges

Receiving errors (rarely)

Purchase declined & Credit Hold: Staff are informed purchased was declined & Agency is on Credit Hold

Workarounds: Staff using their own funds & requests employee reimbursement OR another staff member with P-Card will go & make purchase from Home Depot

Morale: delays in reimbursements impacts employee confidence

Accounting – AP works with Home Depot, CAP and Agency staff to ensure payments are processed for items purchased

Accounts Payable staff

AP relies on the "*Receiving*" to be completed by Agency staff (Operations, Maintenance, Warehouse, and any others) for **Home Depot purchases** in order to process the payments

Goods Receipt/ Invoice Receipt account

AP starts with the GR/IR query in SAP to identify the Home Depot transactions where the receiving has been performed

If "Receiving" has been completed, then it will appear GR/IR query in SAP and AP will proceed to perform the 3-way match

If "Receiving" has not been completed, then the Home Depot transaction *will not* appear on the GR/IR query.

AP does not have knowledge of a Home Depot purchase by staff unless receiving is performed or inquiry regarding the invoice payment status

In SAP, AP staff will select the transaction for review in the GR/IR account and perform the following:

- verify the information that has been entered by the Receiver
- review the receipt/invoice attached in Purchasing Module in SAP, and then
- saves a copy of the receipt/invoice in the department's internal shared drive

Department Network/Share Drive

Home Depot Receipts/Invoices

All receipts/invoices are saved by the number assigned by Home Depot to serve as a Reference number

AP enters the Home Depot purchase/transaction into the Invoice Held Feature in SAP. Using the receipt/invoice, AP staff enters the data into the corresponding fields. (At times, AP must address errors and amount adjustments)

Receiving

3-way match:
PO (Open BPA/Individual PO), Receiving (in SAP), and Home Depot Receipts/Invoices

If the 3-way match is successfully completed, payment can be processed for posting and payment.

If not, then invoice will be placed back on hold and continue to stay in "Held invoices". Then, AP will coordinate with Agency staff to work, address, and resolve errors, amount adjustments and/or issues with the supporting documentation.

AP receives email notifications on Spending alerts Home Depot.

ACH payment

AP processes and posts the invoices for the payment during the "next" scheduled payment cycle.

According to AP, after a transaction has been posted, SAP "flags" the items as "Not due" or "overdue" in the SAP for payment and that is when staff process if all receiving and matching is complete.
Most payments are paid through ACH.

Next, AP will run a "Pre-list" on all items that will be processed for payment and the "Pre-list" is reviewed by Agency Management. Upon approval, a final list of payments is generated and the payments on this list are processed.

Most payments are paid via through ACH.

AP emails remittance advice to vendor

Other issues/challenges

Number of steps & Navigation through multiple screens to process payment in SAP

Dollar amount adjustments

Issues related to Work Orders

Receiving errors, Reversal errors/ transactions

Lost, misplaced and/or incomplete receipts, invoices and/or back up

Access to Home Depot online account

No reconciliations of invoices due to payments made

No documented desk procedures in place on how to process Home Depot payments

Accounting Accounts Payable

Attachment 3
Procure to Pay Process for Home Depot Credit Cards
Items Selected for Detailed Analysis
Fiscal Year 2020/21 and 2021/22

Number	Fiscal Year	PO Number	Goods Receipt Number	Invoice Receipt Number	Invoice #	Amount Paid to Home Depot	Transaction/Purchase Date (Document date in SAP and/or date per the supporting documentation) (A)	Date Invoice Received (acknowledge) by AP (included if information was available) (B)	Date Receiving was performed in SAP (C)	Date Processed by AP Staff (D)	Date Paid Per SAP (E)	Supporting documentation attached in SAP (i.e. in store receipt, online invoice, catalog PO order, etc) (Yes or No)	Supporting documentation attached matches & agrees to the transaction amount being processed (Yes or No)	(if applicable) Number of days from the Invoice date/purchase date to the date AP (acknowledge) receipt of the invoice/receipt (in Days) (A)-(B)	Number of days between the purchase/ transaction date and Receiving in SAP (in Days) (A)-(C)	Number of days between the completion of Receiving and the processing the purchase for payment by AP (not yet paid) (in Days) (C)-(D)	Number of Days for payment to be processed after it was posted in SAP (in Days) (D)-(E)	Number of Days for the Agency to pay for the purchase/invoice AFTER the invoice due date (A)+30 days (Payment terms) = Invoice Due Date-(E)	Number of Days from the date of purchase of the Home depot items to the date paid (in Days)
1	2021	4500036189	5000172435	5100126088	2071853	$149.65	5/5/2020	5/29/2020	9/14/2020	9/15/2020	9/17/2020	Yes	Yes	24	132	1	2	105	135
2	2021	4500036189	5000171566	5100127862	3212769	$924.50	8/11/2020	N/A	8/19/2020	11/24/2020	11/25/2020	Yes	No	Unavailable	8	97	1	76	106
3	2021	4500036189	5000173486	5100128162	6512571	$301.53	9/28/2020	N/A	10/8/2020	12/2/2020	12/3/2020	Yes	Yes	Unavailable	10	55	1	36	66
4	2021	4500036189	5000177842	5100129607	7010767	$298.30	10/7/2020	N/A	1/21/2021	1/26/2021	1/28/2021	Yes	Yes	Unavailable	106	5	2	83	113
5	2021	4500036189	5000175763	5100132238	5235053	$116.75	10/29/2020	12/8/2020	12/7/2020	1/26/2021	4/26/2021	Yes	Yes	40	39	50	2	61	91
6	2021	4500037220	5000176867	5100130727	1735667	$451.38	12/22/2020	2/23/2021	12/23/2020	3/3/2021	3/4/2021	Yes	Yes	63	1	70	1	42	72
7	2021	4500037466	5000178768	5100131505	3970752	$3,554.94	2/8/2021	3/24/2021	2/10/2021	3/24/2021	3/25/2021	Yes	Yes	44	2	42	1	15	45
8	2021	4500036189	5000181866	5100132552	0512748	$404.97	2/11/2021	N/A	4/29/2021	5/5/2021	5/6/2021	Yes	Yes	Unavailable	77	6	1	54	84
9	2021	4500036189	5000181909	5100132659	0174035	$535.20	3/23/2021	N/A	4/29/2021	5/11/2021	5/13/2021	Yes	Yes	Unavailable	37	12	2	21	51
10	2021	4500036189	5000182607	5100133675	4013554	$26.54	5/18/2021	N/A	5/19/2021	6/24/2021	7/1/2021	Yes	Yes	Unavailable	1	36	7	14	44
11	2022	4300000017	5000193801	5100142504	1901639	$220.54	3/7/2022	N/A	3/14/2022	5/6/2022	5/9/2022	Yes	Yes	Unavailable	7	53	3	33	63
12	2022	4300000037	5000193730	5100142509	5822415	$506.05	3/3/2022	N/A	3/9/2022	5/6/2022	5/9/2022	Yes	Yes	Unavailable	6	58	3	37	67
13	2022	4500040004	5000194680	5100142517	2611744	$293.16	2/14/2022	N/A	3/30/2022	5/7/2022	5/9/2022	Yes	No (Receipt attached in the Purchasing module not in the Financial module)	Unavailable	44	38	2	54	84
14	2022	4300000037	5000193092	5100142405	7533149	$709.98	1/20/2022	N/A	2/22/2022	5/4/2022	5/5/2022	Yes	Yes	Unavailable	33	71	1	75	105
15	2022	4500039481	5000191463	5100142280	6257340	$1,560.87	1/11/2022	N/A	1/18/2022	5/1/2022	5/3/2022	Yes	Yes	Unavailable	7	103	2	82	112
16	2022	4300000017	5000190879	5100142185	9081974	$424.75	12/29/2011	N/A	1/3/2022	4/26/2022	4/26/2022	Yes	Yes	Unavailable	3658	113	0	3741	3771
17	2022	4500038902	5000187762 5000188375	5100139652	4973637	$1,791.79	10/5/2021	N/A	10/13/2021	2/15/2022	2/17/2022	Yes	Yes	Unavailable	8	125	2	105	135
18	2022	4300000017	5000186732	5100138448	5080346	$499.56	9/14/2021	N/A	9/16/2021	1/7/2022	1/11/2022	Yes	Yes	Unavailable	2	113	4	89	119
19	2022	4300000017	5000186375	5100138085	5524133	$1,139.84	8/25/2021	N/A	9/7/2021	12/17/2021	12/20/2021	Yes	Yes	Unavailable	13	101	3	87	117
20	2022	4300000017	5000186315	5100138087	5903877	$200.81	8/25/2021	N/A	9/7/2021	12/17/2021	12/20/2021	Yes	Yes	Unavailable	13	101	3	87	117

Source: SAP (Agency's Financial System), Accounts Payable Monitoring Report for FY 2021 and 2022 (as of July 14, 2022), and Goods Receiving and Invoice Payment Tracker Report as of August 8, 2022.

Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Home Depot Credit Cards

Teresa Velarde

Manager of Internal Audit

September 12, 2022

P2P – Home Depot Credit Cards

2018 Procurement Card Audit

IA provided 7 audit recommendations related to maximizing the use of the P-Card and maximize the benefits provided through the P-Card:

- Evaluate the benefits of consolidating the various credit card programs
  - Rebates earned for early payment
  - Rebates earned for volume spending

- Maximize the use of the US Bank online tools for
  - Reporting tools to evaluate spending by different categories
  - Creating blocks on types or purchases or maximum amounts
  - Creating alert notices for any unusual activity
  - Streamlining the approval and reconciliation process
  - Improve the reconciliation of expenses

P2P – Home Depot Credit Cards

Audit Objectives

- Determine compliance with Agency policies and department Procedures

- Evaluate internal controls

- Evaluate the receiving function

- Evaluate the timeliness of payments

- Evaluate the efficiency of the payment processes

- Identify inefficiencies in the processes

- Evaluate the use of technology and reporting tools

- Identify operational efficiencies and opportunities for improvement

P2P – Home Depot Credit Cards

Risks & Other Challenges:

- Agency placed on credit hold and purchases declined

- Morale due to declined purchases

- Workarounds and delays

- Reputation risk to the Agency

P2P – Home Depot Credit Cards

Background Information:

—**Home Depot Contract and Credit Cards** (in use since at least 2007)
  - Contract provides national discounted pricing and Home Depot credit cards
  - Credit cards are a payment mechanism to pay for purchases at the Home Depot stores and online (website)

—**Store specific credit card, No Visa or Mastercard logo**

—**Follows the Procure to Pay processes**

—**Administered by the Contracts and Procurement (CAP)**

—**No Agency Policy to provide guidelines**

—**Rebates are minimal**

P2P – Home Depot Credit Cards

Cardholder assignment:

Agency Department	Number of Cards Issued
IEUA	
Contracts and Procurement	2
Engineering	4
External & Government Affairs	1
Facilities & Water Systems Programs	7
Maintenance	5
Operations	6
Planning & Resources	2
IERCA	5
Home Depot card issued to separated employee	1
Total number of Home Depot credit cards issued	**33**

Home Depot Store locations
Frequently visited (daily)
• 14549 Ramona Avenue, Chino, CA
• 2980 S. Euclid Avenue, Ontario, CA
• 11884 Foothill Blvd, Rancho Cucamonga, CA

Spending and Early Pay Discount:

Home Depot Online account Amounts are inclusive of all purchasing methods (Catalog (PR/PO), credit card – in store/online) Data as of August 11, 2022 [1]			
Description	**IEUA**	**IERCA**	**Totals**
Year-to-date Spend [1]	$ 24,101.49	$ 12,637.34	$ 36,738.83
Year-to-date EPD [1]	$ 97.26	$ 3.39	$ 100.65

Rebates:

The Home Depot's Incentive Program		
Description	**Net Sales**	**Earned Participant Rebate**
2020 Rebate *(Received March 2021)*	$50,542.85	$1,010.86
2019 Rebate *(Received March 2020)*	$52,831.77	$1,056.64

P2P – Home Depot Credit Cards

P2P for Home Depot Credit Cards
Processes for Issuance, Purchases, Routing of Supporting Documentation, Receiving and Payment

Contracts and Procurement

Contracts and Procurement (CAP) is responsible for the administration of the Home Depot credit cards program, including guidelines and procedures, issuance, use, training, and compliance with the ordinance & applicable purchasing policies.

Ordinances & Agency Policies

Procurement Ordinance No. 108

A-55 Agency Credit Cards

A-86 Refueling Agency Vehicles

A-89 Procurement Card Program

Home Depot Credit Cards

Home Depot (HD) Co-Op Agreement

Agency Credit Card programs: Bank of America, Home Depot, Sam's Club, P-Card and Voyager (US Bank)

Beginning of each Fiscal Year, CAP sets up the following for the Home Depot credit card program in SAP: Blanket Purchase Agreement (BPA), Blanket Purchase Order (BPO), and (standard) Receiving PO

Agency staff — SAP

Request Home Depot credit card through Support Request on Agency's intranet or via email to designated CAP staff member

Upon approval by Department Supervisor, designated CAP staff member requests the Home Depot credit card using the online account (website). CAP staff member communicates when the card will be sent and processing procedures for purchases

Home Depot cards sent within 7-10 business days to the CAP, and distributed to the employee.

Home Depot establishes the overall total credit limit (both IEUA & IERCA).

In Store & Online: Staff assigned Home Depot cards can make purchases in store and/or online & use the card as the payment method during checkout.

Catalog: Staff that are not assigned a Home Depot card, can purchase items using the SAP Home Depot Open Catalog Interface (OCI), which is processed through the P2P processes (i.e. ordering, approvals, workflows, etc.)

For Catalog purchases, CAP generates PRs into POs. CAP sends the PO purchase via email to Home Depot for processing

Designated CAP staff member manages the online Home Depot account & receives electronic copies of the Home Depot receipts via email from in-store & online purchases. Additionally, receives email notifications on PO orders processed via Catalog.

Email — Outlook

Home Depot receipts retained via Outlook

CAP staff member circulates the Home Depot Credit Card Payment Processing Procedures

Other issues/challenges

SAP: Assist staff if there Price Changes/updates for items being ordered and/or purchased Home Depot. Assist with any PR/PO related issues.

Purchase declined & Credit Hold: Staff contacts Department Administrative Assistant and/or CAP staff member for assistance because the purchase was declined at the Home Depot store & Agency is on Credit Hold

Processing procedures & Reconciliation: incoming/newer staff contacts CAP for assistance on how to process the purchase from Home Depot.

Policies & Procedures: No formally, documented policy and/or procedures related to Home Depot credit card program

Reoccurring Credit Hold issues: creates frustration for Agency staff & impacts employee morale

Operations

Process any PR, PO issues

Agency staff

Purchase is made at Home Depot by staff *(in store)*

Payment method is Home Depot card

Home Depot Receipts Provide to Administrative Assistant

Administrative Assistant — Outlook

Sends Cost Center and functional area information to Warehouse with a copy of the Home Depot receipt via email

Warehouse staff performs Receiving function in SAP for the items purchased by Operations from Home Depot. Receiving is performed against a Blanket Purchase Order/Standard Receiving PO

Administrative Assistant — Receiving

Other issues/challenges

Receiving errors (occur occasionally)

Purchase declined & Credit Hold: Staff are informed purchased was declined & Agency is on Credit Hold

Workarounds: Staff using their own funds & requests employee reimbursement OR another staff member with P-Card will go & make purchase from Home Depot

Morale: delays in reimbursements impacts employee confidence

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Maintenance

Agency staff will work with CAP as required to address

Process described below is prior to July 2022

Agency staff → Purchase is made at Home Depot by staff *(in store)* → Payment method is Home Depot card →

Home Depot receipts
Home Depot Receipts are scan & sent electronically via email to Admin Assistant & placed in a folder OR physical receipts are placed in folder & Admin Assistant will scan in the receipt →

Enters a Purchase Requisition (PR) for each *individual* Home Depot purchase
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Upon PR approval, CAP generates Purchase Order
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Warehouse

Agency staff → (Inventory Items – regularly stocked at the Warehouse, Non-inventory – items - needed by other Agency departments) → Order items needed from Home Depot online for in store pick up →

Home Depot Receipts (hardcopy/physical or scan & send electronically)
Administrative Assistant →

Blanket Purchase Order Agreement
Warehouse staff enters a PR < attaches paperwork/documentation < CAP generates PR into Open PO
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Home Depot is more cost effective & cheaper than alternative vendors. When purchasing from Home Depot, items are readily available whereas with alternative vendors take between 3 days to a week to deliver the items.

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GWR

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Home Depot Receipts Provide to Administrative Assistant electroncially →

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Administrative Assistant will perform Receiving function in SAP and receives against Open Purchase Order
Administrative Assistant Receiving →

Administrative Assistant performs cursory review and/or monitoring of Open Purchases Order (uses open po report) →

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P2P – Home Depot Credit Cards

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3-way match:
PO (Open BPA/Individual PO), Receiving (in SAP), and Home Depot Receipts/Invoices

If the 3-way match is successfully completed, payment can be processed for posting and payment.

If not, then invoice will be placed back on hold and continue to stay in "Held invoices". Then, AP will coordinate with Agency staff to work, address, and resolve errors, amount adjustments and/or issues with the supporting documentation.

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According to AP, after a transaction has been posted, SAP "flags" the items as "Not due" or "overdue" in the SAP for payment and that is when staff process if all receiving and matching is complete.
Most payments are paid through ACH.

Next, AP will run a "Pre-list" on all items that will be processed for payment and the "Pre-list" is reviewed by Agency Management. Upon approval, a final list of payments is generated and the payments on this list are processed.

Most payments are paid via through ACH.

AP emails remittance advice to vendor

Other issues/challenges

Number of steps & Navigation through multiple screens to process payment in SAP

Dollar amount adjustments

Issues related to Work Orders

Receiving errors, Reversal errors/ transactions

Lost, misplaced and/or incomplete receipts, invoices and/or back up

Access to Home Depot online account

No reconciliations of invoices due to payments made

No documented desk procedures in place on how to process Home Depot payments

9

P2P – Home Depot Credit Cards

Receiving for Home Depot purchases/transactions:

Receiving function in SAP				
(Count of Distinct GR Documents with Days to Receive)				
Home Depot Purchases				
Data as of August 8, 2022				
Number of days to Receive	**FY 2020-21**		**FY 2021-22**	
	IEUA	**IERCA**	**IEUA**	**IERCA**
1-7 days	91	33	115	15
8-14 days	27	10	23	3
15-30 days	37	7	21	5
31-60 days	39	1	10	0
61-90 days	24	1	7	2
90 or more days	20	0	7	7
Totals	*238*	*52*	*183*	*32*

<u>Source:</u> Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2020-6/30/2021, Company Code 1000 and 2000
Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2021-6/30/2022, Company Code 1000 and 2000

Goods Receiving and Payment Tracker

GR Entry Date:7/1/2020 - 6/30/2021
Company Code: 1000
Receiver(s): ALL RECEIVERS
Vendor(s): 100155, 806502, 906444
GL Acc. Category: ALL GL Accounts

Count of Distinct GR Documents with Days to Receive

Legend:
- 1 - 7 Days to Receive
- 8 - 14 Days to Receive
- 15 - 30 Days to Receive
- 31 - 60 Days to Receive
- 61 - 90 Days to Receive
- 90 + Days to Receive

Values: 91, 27, 37, 39, 24, 20

Count of Distinct GR Documents Received within 7 Days

Values: 35, 13, 6, 4, 13, 12, 8 (for 1–7)

P2P – Home Depot Credit Cards

Timeliness of payments for Home Depot purchases/invoices:

Vendor Payment Processing in SAP *(Count of Vendor invoices Paid and Past Due)* **Home Depot Purchases** **Data as of August 8, 2022**						
	FY 2020-21			**FY 2021-22**		
	IEUA	**IERCA**	**% of all receiving**	**IEUA**	**IERCA**	**% of all receiving**
Paid on Time	31	44	24%	8	2	5%
Past due 1-30 days (paid one month late)	54	2	18%	16	5	11%
Past due 31-60 days (paid 2 months late)	98	0	31%	33	4	19%
Past due 61-90 days (paid 3 months late)	67	2	22%	64	8	36%
Past due over 90 days (paid 4 months late)	15	1	5%	48	10	29%
Totals	*265*	*49*	*100%*	*169*	*29*	*100%*

Source: Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2020-6/30/2021, Company Code 1000 and 2000
Goods Receiving and Invoice Payment Tracker Report, GR Entry Date: 7/1/2021-6/30/2022, Company Code 1000 and 2000

Count of Vendor Invoices Paid and Past Due

- Paid On Time
- Past Due 1 - 30 Days
- Past Due 31 - 60 Days
- Past Due 61 - 90 Days
- Past Due Over 90 Days

P2P – Home Depot Credit Cards

Audit Results:

- One (1) of the 20 or 5% items tested had the wrong invoice attached in SAP. The invoice attached in the financial module in SAP does not support the amount paid. (Sample No. 2)

- One (1) of the 20 or 5% items tested had no invoice/receipt attached in the financial module in SAP. The in-store receipt was used to perform the Receiving function and available to be viewed in the Purchasing module under the Goods Receipt number in SAP. (Sample No. 13)

- One (1) of the 20 or 5% items tested had a data entry error and the document date (invoice date) was inputted correctly. Specifically, the year was entered incorrectly. (Sample No. 16)

- Three (3) of the 20 or 15% items tested had incorrect/inaccurate dates in the document date filed inputted during the Receiving process in SAP. Specifically, in the Purchasing module, the incorrect date was entered in the document date field. (Sample No. 2, 17, and 20)

- Eight (8) of the 20 or 40% items tested took longer than 30 days to receive according to the dates recorded in SAP and metrics calculated on the GRIPT report and/or by IA. (Sample No. 1, 4, 5, 8, 9, 13, 14, and 16)

- 16 of the 20 or 80% items tested, the number of days between the completion of the Receiving and processing and posting the payment by AP took longer than 30 days (as late as 125 days). This is an issue related to Accounting not having a systematic and consistent methodology to account for and process Home Depot purchases and payments. (Sample No. 2, 3, 5, 6, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20)

P2P – Home Depot Credit Cards

IA Recommendations:

- Eliminate the Home Depot credit cards

- Electronic Home Depot receipts should be placed in a central location

- Key information required as part of the Receiving function in SAP

- Need an Agency Policy for the use of Home Depot credit cards

- Need documented procedures of tracking, monitoring and processing timely payments of Home Depot credit card transactions

- The various procurement methods should be uniform

- Role of the CAP representative should be enhanced

- Ensure adequate custody and oversight of the credit card assignments

- Accounting does not have a systematic method to account for, monitor and process Home Depot payments

The Accounts Payable Operational and Internal Control Audit Report Review of Procure to Pay Processes for Home Depot Credit Cards 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 control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Questions?

Audit Committee

**INFORMATION
ITEM
2B**

Executive Summary:

Internal Audit (IA) staff is in the process of finalizing the evaluation of the procure to pay (P2P) process for Agency material and supplies (M&S). 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. The purpose is 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.

During the previous quarter, IA provided a general overview of the P2P audit, a preliminary list of only a few vendors and a draft of the flowchart of the P2P process. During this quarter, IA revised and updated with more accurate information the steps in the P2P process. Pulled a larger, more complete list of all M&S vendors, including all transactions and data for analysis. The next steps in the audit process include completing testing of selected transactions to identify and evaluate the root cause for delays in the P2P process and complete the analysis of the data with metrics and statistics, additionally, to provide recommendations for improvements.
A final audit report will be presented in December 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 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 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 Status Update - 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 - PowerPoint

**Status Update -
Review of Procure to Pay Processes
for Materials and Supplies**

Teresa Velarde

Manager of Internal Audit

September 12, 2022

P2P Process for Materials and Supplies (M&S)

New Updates Since the Interim Report:

- Identify **86 M&S vendors**[1] to be used for sample selection.

- **Updated the scope** of the M&S audit **to focus on recent data for FY 2021-2022**.

- Determined the total dollar amount spent on M&S for the 86 vendors in FY 2021-2022 to be **$3.4 million**[2].

- Facilitated interviews to create new **flowcharts** and **process steps** with **current and detailed** information.

- Documented information for **8 potential procurement methods for M&S**.

- Developed **testing procedures** and **began sample selection process**.

- **Potential observations for improvement are being noted** and **will be included in the final report**.

1. The list of 86 M&S vendors did not include chemical vendors that were already covered in the P2P Processes for Chemicals Review.

2. $3,415,956.35 according to FY2021-2022 AP Monitoring report that was downloaded from SAP (Crystal Reports) on July 14, 2022. Dollar amounts listed are based on the Document Types ZA and ZC, which are amounts paid/disbursed by the IEUA to M&S vendors.

Updated Flowcharts:
P2P Process for Materials and Supplies

Contracts and Procurement (CAP)

CAP identified 8 potential procurement methods for materials and supplies. CAP works with the vendor, Accounting (ACCT), and the appropriate ordering department - Operations (OPS), Facilities and Water System Programs (FWSP), Maintenance (MNT), or Warehouse (WHS) - throughout each procurement method.

- Catalog Purchase Orders
- Standard Purchase Orders
- Blanket Purchase Agreements
- Emergency Procurements
- Cooperative/Piggyback Procurements
- Budgeted Procurements
- Credit Cards
- Contracts

Warehouse (WHS) Receiving

WHS works with the vendor, CAP, and ACCT throughout receiving process for M&S.

Delivery truck drops off materials and supplies to WHS.
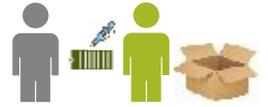
WHS Technician verifies contents of package, signs for packages that will be kept at the WHS, and, if the package needs to go elsewhere, updates the notes as to where the package needs to go from there.

For items a different department will complete SAP receiving for, WHS logs notes/details for items in SAP.

For items OPS/FWSP will be completing SAP receiving for, the appropriate department is notified that the package is ready for pick up.

For items WHS will complete SAP receiving for, WHS Technician updates internal intake log with notes/details for items and takes the receiving documents from the packaging.

WHS Technician scans delivery documentation into shared agency drive.

WHS administrative staff access scan of delivery documentation from shared agency drive to perform SAP receiving and upload supporting documentation into SAP.

Original documentation is eliminated. Uploaded documentation is kept in SAP.

After SAP receiving is complete, SAP generates a goods receipt (GR) and GR number.

Updated Flowcharts:
P2P Process for Materials and Supplies

Updated Flowcharts:
P2P Process for Materials and Supplies

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Accounting (ACCT) - Accounts Payable (AP)

ACCT – AP works with the vendor, CAP, and the receiving department - Operations (OPS), Maintenance (MNT), Warehouse (WHS), or Facilities and Water System Programs (FWSP) - to process payment for materials and supplies.

Invoices

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

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

Excel

Intern staff (as of February 28, 2022) log all invoices received (email/post mail) in an excel spreadsheet.

Next, intern staff enter all invoices into SAP and post invoices to the "Held Invoices" report, a database of all incoming invoices, to be stored temporarily for further SAP processing by AP staff.

AP relies on materials and supplies SAP receiving to be completed by Agency staff (OPS, MNT, WHS, and FWSP).

SAP — Receiving

Goods Receipt/ Invoice Receipt (GR/IR) Query

SAP

AP starts with the GR/IR report in SAP to identify the materials and supplies transactions where the receiving has been performed

If SAP receiving has been completed, then it will appear in the SAP GR/IR report and AP will proceed to perform the 3-way match

If SAP receiving has not been completed, then the materials and supplies transaction will not appear on the GR/IR report.

Once a transaction is selected for processing, AP staff will perform the three-way match which entails navigating approximately 8-10 screens in SAP to:

• Verify PO information
• Confirm invoice information
• Validate delivery documentation
• Match PO, invoice, and delivery documentation amounts

PO   Invoice   **3-Way Match**   Delivery documentation

If 3-way match is successfully completed, invoice processing will continue.

If 3-way match is unable to be completed, then invoice will be placed back on hold and continue to stay in "Held Invoices." Then, AP will coordinate with Agency staff to resolve errors, amount adjustments, and/or issues with the supporting documentation.

AP processes and posts the invoices.

According to AP, after a transaction has been posted, SAP "flags" the item as "not due" or "overdue."

For an item "not due," SAP will leave the item as an open payable for scheduling of payment to be completed closer to the due date.

For an item "overdue," payment is automatically scheduled for the next payment cycle.

SAP

ACH Payment

Next, AP will run a "Pre-list" on all items that will be processed for payment and the "Pre-list" is reviewed by Agency Management.

Upon approval, a final list of payments is generated and the payments on this list are processed.

Most payments are paid through ACH.

Remittance Advice

AP emails remittance advice to vendor.

P2P Process for Materials and Supplies

Receiving Challenges:

- For non-BPA vendors, there is currently no way to know for the staff placing the order to know if the Agency is on credit hold with a vendor without submitting a quote and waiting 1-2 days for a response (sometimes it takes 3-4 days for the vendor to realize/notify us that we are on credit hold).

- There are times when SAP receiving is completed by the initial delivery site before the item reaches the division that is responsible to complete the SAP receiving for it.

- Allotted time used for SAP receiving varies by division with some receivers performing it as soon as it is ready and others waiting until a certain time of the week to complete all receiving for the week.

- The information entered into SAP during receiving varies by division, resulting in:

  – Varying identification information available in SAP for Accounting

  – Varying amounts of time needed to complete SAP receiving

Payment Timeliness in FY 2021-2022:
P2P Process for Materials and Supplies

Timeliness	Total Dollar ($) Amount (AMT) of Transactions	Number (#) of Transactions	Percentage of Transactions
On Time	$ 1,237,913	994	33%
Late	$ 2,500,566	2,023	67%
Grand Total	$ 3,738,480	3,017	100%
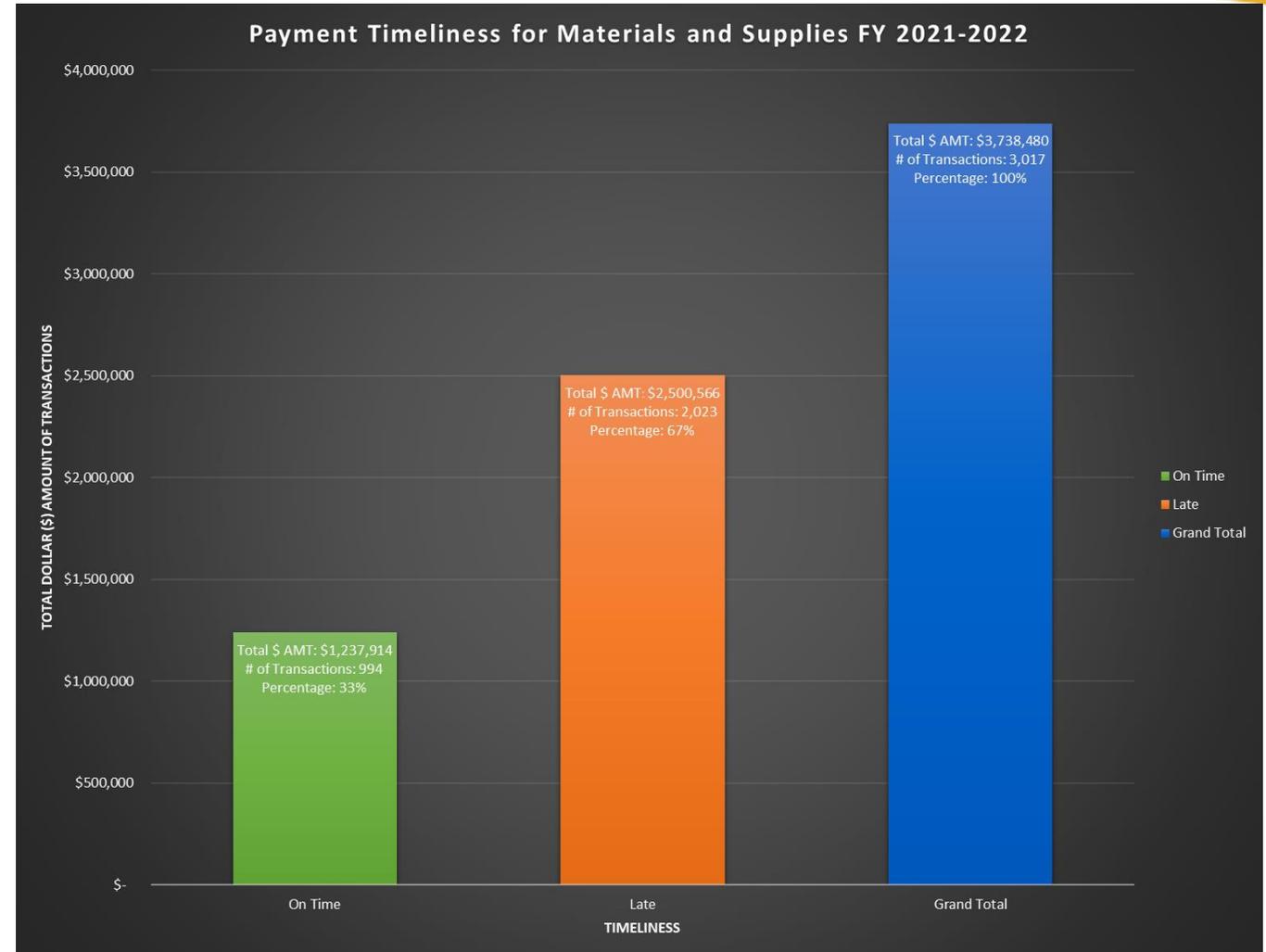
*The data above is according to the FY 2021-2022 AP Monitoring report that was downloaded from SAP (Crystal Reports) on July 14, 2022. Dollar amounts, transaction counts, and percentages listed are approximations based on Document Types VI and VM, which are purchase order and non-purchase order invoices. The total dollar amount of purchase order and non-purchase order invoices after duplicate removal procedures is just over $3.7 million (as shown above) while the total dollar amount paid/disbursed by the IEUA to M&S vendors is just over $3.4 million.

Late Payments by Transaction Amount FY 2021-2022: P2P Process for Materials and Supplies

Dollar Amount of Transaction	Number (#) of Transactions	Percentage of Transactions
Under $5,000	1,932	96%
$5,001-$10,000	54	3%
Over $10,000	37	2%
Grand Total	**2,023**	**100%**

Late Payments by Transaction Amount FY 2021-2022
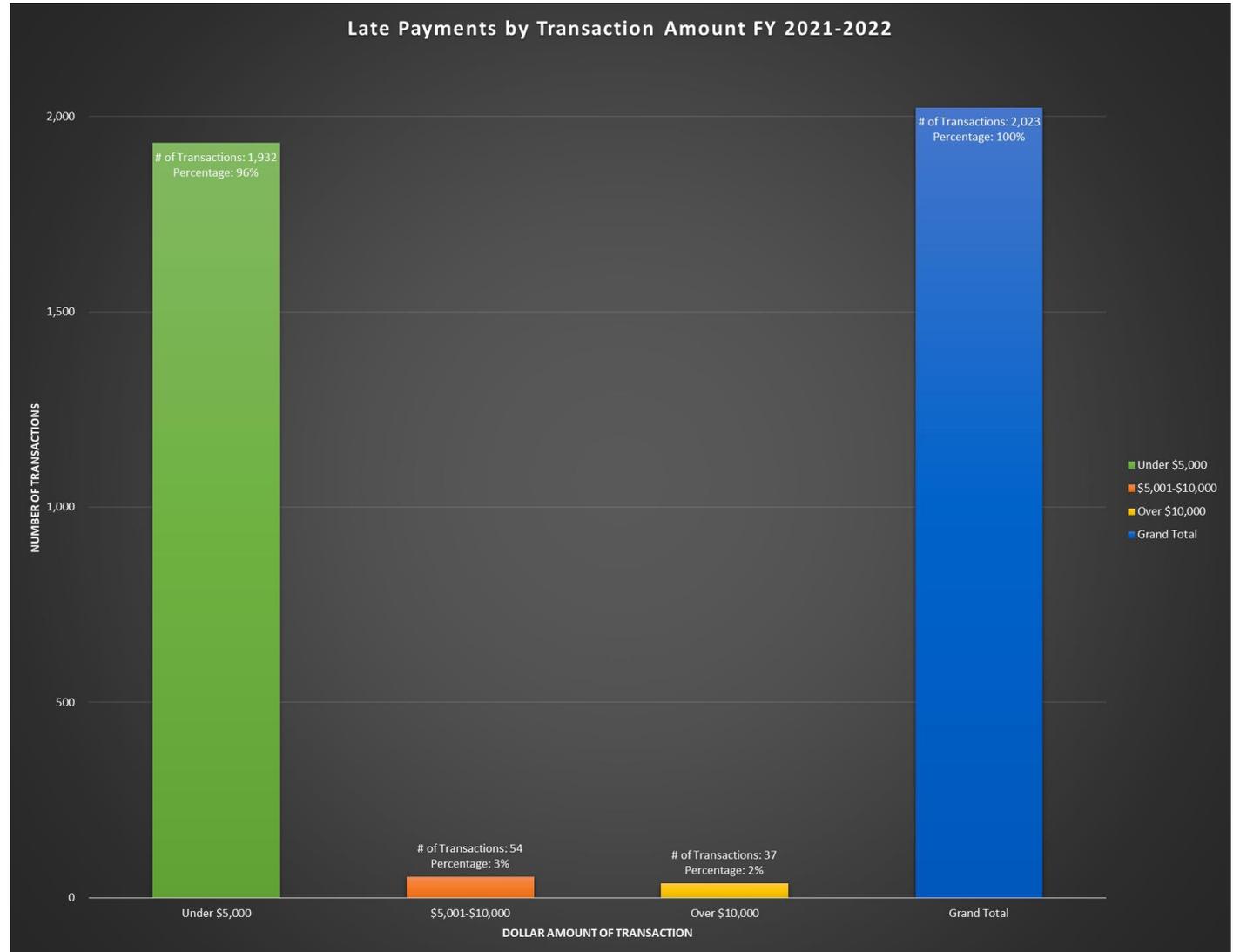
Top 10 M&S Vendors and Dollar Amounts FY 2021-2022: P2P Process for Materials and Supplies

Top 10 M&S Vendors for IEUA (According to Amounts Spent in FY 2021-2022)	Total Amount Spent
ROYAL INDUSTRIAL SOLUTIONS	$ 537,272
HACH COMPANY	$ 194,283
GRAINGER INC	$ 182,210
CINTAS CORPORATION	$ 166,445
VAUGHAN'S INDUSTRIAL REPAIR CO INC	$ 153,805
CS-AMSCO	$ 129,791
FISHER SCIENTIFIC	$ 128,410
JCE EQUIPMENT INC	$ 116,580
GRISWOLD INDUSTRIES	$ 108,157
MCMASTER-CARR SUPPLY CO	$ 102,213
Grand Total for Top 10	**$1,819,165**

The Status Update - 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.

Audit Committee

INFORMATION ITEM

2C

Date: September 21, 2022

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

09/12/22

Committee: Audit

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Progress Update for all Procure to Pay Audit Recommendations

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Executive Summary:

This is the third progress update of audit recommendations provided by Internal Audit (IA) through the Accounts Payable Operational and Internal Control audits that evaluate the procure to pay processes (P2P) for the various Agency departments. The scope of the 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 ensure the processes are efficient and ensure vendor invoices are paid timely.

To-date, IA has provided 67 recommendations in the four comprehensive audits completed: the Interim Audit Report, Procure to Pay Processes of Agency Chemicals, Procure to Pay Processes for Professional Services administered by the Engineering and Construction Management Department, and the Procure to Pay Processes for Planning & Resources. Of the 67 recommendations issued, 29 are now implemented, 21 are in progress of being implemented and 17 are considered no longer applicable because alternate controls have been implemented to address the findings noted. The attached report provides details of the results. IA will continue to provide quarterly progress updates for all recommendations, including new recommendations made in 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 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 Annual Audit Plan. The Plan proposed the various Procure to Pay Audits under the Accounts Payable Operational and Internal Controls 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 - 3rd Progress Update for all outstanding P2P audits
Attachment 3 - PowerPoint

DATE: September 1, 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 sixty-seven (67) 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, and the Review of Procure to Pay Processes for Planning & Resources, dated May 24, 2022. The quarterly progress update is provided under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2022/2023 Annual Audit Plan and the IA'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 to identify observations and recommendations for improvements to the processes to ensure the vendor payments are paid timely and within the terms of the vendor invoices. 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

| Steven J. Elie | Michael Camacho | Marco Tule | Jasmin A. Hall | Paul Hofer | Shivaji Deshmukh |
| President | Vice President | Secretary/Treasurer | Director | Director | General Manager |

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
  - 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 (P2P – Engineering
  - Dated February 24, 2022
  - Provided twenty-one (21) audit recommendations
  - Presented and discussed during the March Audit Committee meeting

- Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Professional Services – Planning and Resources
  - Dated May 24, 2022
  - Provided 11 audit recommendations
  - Presented and discussed during the June Audit Committee Meeting

The breakdown of the number of recommendations provided to each department is noted in the chart below with a status for each recommendation. The attached report, 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. The list attached provides only a list of items that were still outstanding as of June 2022, resolved items are not included.

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Audit Recommendations	
Operations Unit	12	0	0	4	16	100% Implemented All 16 recommendations have been addressed.
Engineering & Construction Management	2	4	0	1	7	2 of 7 recommendations 29% have been addressed. 4 of 7 recommendaitons 57% are in progress.
Planning	4	0	0	2	6	100% Implemented All 6 recommendations have been addressed.
Contracts and Procurement	7	1	0	1	9	Only one recommendation requires attention - re Agency Policy A-51 procurements.
Accounting	4	16	0	9	29	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Total Recommendations	29	21	0	17	67	43% Implemented 31% In Progress 25% No Longer Applicable
Percentages	43%	31%	0%	25%		

Of the 67 recommendations:
- **29 are now Implemented (43% of all recommendations)**
- **21 are in progress of being implemented (31% of all recommendations)**
- **17 are considered no longer applicable because alternate controls were implemented. These are considered closed.**

<u>Highlights</u>
Highlights of the recommendations that have been implemented during the previous three months include the following:

- CAP has addressed 8 of the original recommendations. Only one recommendation remains outstanding. This is a new recommendation provided in June of 2022 related to updating Agency Policy A-51 regarding procurements for Purchase Orders and non-Purchase Orders. CAP is taking the lead to see that this policy is updated to formalize and clarify Agency guidelines related to procurements.

  Other recommendations already implemented suggested that CAP 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 days of the month to process timely payments for chemical vendors.

- 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 is also working closely with IT to evaluate new software tools to automate the upload and routing of invoices, this system will ensure all invoices that arrive at the Agency are accounted for, tracked, monitored and sent to the appropriate approver for signature and proper receiving in SAP.

  The attached matrix provides a status for each of the previously outstanding audit recommendations. For additional details, 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.

- Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Planning and Resources, dated May 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 December 2022.

Acknowledgements
IA would like to extend our appreciation to the Planning & Resources, 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.

Internal Audit Department
Internal Audit DepartmentProgress Update for all Procure to Pay Audit Recommendations
September 1, 2022

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Audit Recommendations	
Operations Unit	12	0	0	4	16	**100% Implemented** **All 16 recommendations have been addressed.**
Engineering & Construction Management	2	4	0	1	7	**2 of 7 recommendations 29% have been addressed.** **4 of 7 recommendaitons 57% are in progress.**
Planning	4	0	0	2	6	**100% Implemented** **All 6 recommendations have been addressed.**
Contracts and Procurement	7	1	0	1	9	**Only one recommendation requires attention - re Agency Policy A-51 procurements.**
Accounting	4	16	0	9	29	**13 of 29 recommendations 45% have been addressed.** **16 of 29 recommendations 55% are in progress.**
Total Recommendations	29	21	0	17	67	**43% Implemented** **31% In Progress** **25% No Longer Applicable**
Percentages	43%	31%	0%	25%		

			STATUS				
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**
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				7/11/2022 response received via email: The Goods Receiving and Invoice Payment Tracker for chemicals is now automated to be emailed to admin assistant and Manager by 0600 every Monday. This report will be used to manage and track the receiving process of chemicals. We have established the following goal: All chemical receiving will be completed with an annual average of 7 days or less. The Goods Receiving and Invoice Payment Tracker will be reviewed weekly to ensure compliance with the established goal. Additionally, the Admin. Assistant and the Manager have established have a monthly KPI goal of completing all receiving in 7 days or less as part of our appraisal goals and objectives. If there are any outliers outside of 7 days a justification captured and communicated to Operations Unit staff.	7/11/2022: IA considers this recommendation to be implemented and closed. O&M has found a way to work closely with IT and ensure the department is able to monitor weekly the progress of their receiving. Additionally O&M is choosing to take a strong stand on thie implementation of this recommendation by making these goals/objectives/KPIs a priority and taking them as far as individual goals in the Managers and Administrator's performance appraisal. IA commends the department for taking strong proactive approach to ensure their part in the P2P process is evaluated and monitored weekly and holding their staff responsible for ensuring to meet the goals they set for themselves.

#	Dept	Recommendation	(green)	(yellow)	(red)	(purple)	Response	IA Comments
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 method available.		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.

#	Dept	Recommendation					Management Response	Status
1	P&R	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.	X				Planning has initiated discussions with the departments. Planning is working with CAP and Accounting to determine what the best practice is for the transactions. Planning is waiting for Accounting to provide additional information. The departments may agree that a traditional PR/PO may not be the most appropriate procurement instrument. The departments will discuss to evaluate various recommendations/approaches before finalizing a spceific process. IA will review this in the next quarterly update.	8/17/2022 It was discussed with CAP, Accounting and P&R: the departments have discussed and agreed on the steps for going forward with regards to unique procurement transactions and the need to maintain a P2P process. The meetings have provided awareness and information for all departments. It was decided that the P&R department will reach out to CAP when they have questions and ensure there is consistency in their procurement instruments and processes. CAP stated that the goal is to have the least number of transactions outside the PR PO system and limit the specific/unique/special transactions that do not have a PR PO and CAP is available if needed when there are different circumstances. The discussion and planned steps for going forward was satisfactory to CAP. This recommendation is now considered implemented.
2	P&R	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 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.				X	Planning has discussed this recommendation with Accounting. Accounting stated they are currently evaluating automated software tools to facilitate the routing of invoices to the various departments. Planning stated they are open and flexible to implement the best process to assist paying invoices on time and will take a recommendation from Accounting. Accounting has recommended to Planning to keep the current methodology because migrating to SharePoint, at this time might not be the most efficient tool and will wait until other tools/software is evaluated or implemented, in order to minimize changes at this time. Planning stated they will continue to maintain the internal tracker to manage their vendor invoices to ensure they are processing the invoices timely.	IA considerst this recommendation as no longer applicable because Accounting is working on implmeemting automated tools at this time and has advised Planning to keep their current methodology for now. This recommendation continues to be in progress for Accounting only.
3	P&R	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.				X	Planning discussed with Accounting. Accounting advised to continue to monitor if there is benefit to the department. Panning stated this is the best tool to monitor the contracts and invoices because they have first-hand knowledge regarding the financial information. Planning stated they are currently monitoring their projects by project type and also by vendor and keeping track by task orders when needed. At this time the department doesn't know if SAP can accomplish this and their current method provides the best monitoring tool at this time. Planning stated this is a project management tool and will not facilitate the timeliness of payments, they mentioned it would be a good tool to evaluate at some time but at this time this initiative would not be a priority for the department.	Recommendation is considered no longer aplicable because IA recommends Planning also discuss with IT to determine if this monitoring can be automated to make it more efficient with real time data. IA also recommends to evaluate the level of projects, contracts and transactions and the feasibility managing with the current process to make it more efficient with automated tools. Planning could take the current spreadsheed to IT as a discussion point to begin discussing efficiencies that can be gained from automating. Planning stated they will take the lead to evaluate this with IT in the future.

4	P&R	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.	X			Planning discussed with Accounting and determined that 7 days is the most appropriate goal for the department. The department stated that their actual turnaround time is 1-2 days, 7 days will be the goal and Accounting stated this is reasonable. The department stated they will document this goal in a formal SOP.	8/23/2022 P&R is finalizing their SOP, IA has reviewed. 8/17/2022. The department documented an SOP and have submitted to IA for review and comments. The SOP provides guidelines to complete the receiving process into SAP. Recommendation is considered in progress until the SOP is formalized. IA will review the updated SOP when it is finalized.
5	P&R	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.	X			Planning stated they are flexible to work with the process Accounting prefers. Planning discussed with Accounting and at this time Accounting would prefer to keep the email notifications coming from P&R.	IA recommends email notifications be reevaluated and possibly eliminated to make the communication process more efficient. IA agrees email notifications are necessary for unique transactions that require additional review/information.
6	P&R	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.	X			Planning is finalizing the SOP and will provide to IA for review once it is finalized.	8/23/2022 P&R is finalizing their SOP, IA has reviewed. 8/18/2022. The department documented an SOP and includes procedures for completing the receiving into SAP and logging incoices in their internal database tracker. Additionally, the procedure specifes the timeline for completing the invoice receiving and processing. This recommendation is now implemented.
7	CAP	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.	x			The department indicated they have discussed with Planning and are also working with Accounting to determine how best to set up and treat these unique transactions.	8/17/2022. The departments have discussed and agreed on the steps for going forward. The awareness was provided information and education. It was decided that the P&R department will reach out to CAP when they have questions and ensure there is consistency in their procurement instruments. CAP stated that the goal is to have the least number of transactions outside the PR PO system and limit the specific/unique/special transactions that do not have a PR PO. The discussion and planned steps for going forward was satisfactory to CAP. This recommendation is now considered implemented and closed.

#		Recommendation					Response	Update
8	CAP	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.			x		On 8/22/22 Received update from CAP: Yes, we had a meeting with a lot of great discussion. The meeting included CAP and Accounting. The policy is under review, CAP is taking the lead on the review with track changes. Areas of discussion included updating the definition in 4.1 to identify that invoices for NPO aren't tied to a contract or PO routed through the formal P2P process. Update the workflow to remove the reference to the Procurement Ordinance. This is because the ordinance is not the governing document for invoice approvals. Update 5.2.A Guidelines to include more accurately identify the types of goods and services that should be processed via NPO. Update the table in 5.3A for correct titles and thresholds. Update details in 5.4 Processing to include AP related information and where the new Invoice processing software will be applied. (THIS IS SOMETHING THAT MAY TAKE SOME TIME TO UPDATE.) CAP stated they would take the lead to evaluate A-50 and provide recommendations to update.	8/22/22 IA will follow up with CAP during the next quarterly update in October/November. IA is also available to review the updates. 8/17/2022. CAP is meeting with Accounting to discuss and review the required policy updates. IA will follow up with CAP during August.
21	Acct	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			**Per responses provided on 8/2/2022 & 8/4/2022: CHEM#21 Accounting has determined having the Interns placing the invoices on "hold" as part of the in-take process is the most efficient method to process AP in the current system. While we have a desk procedure for this process, any formal SOPs are pending the implementation of an AP automation solution. We consider this recommendation implemented as only the SOP is outstanding which is addressed under recommendation CHEM # 26.** Prior Progress Update 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	**8/3/2022 Accounting has determined that placing all invoices in the "held" feature is the most efficient method to process AP items. There is currently a desk procedure on the uploading/intake of invoices using the "held" feature. Accounting stated that a final SOP will be formalized and finalized upon the implementation of all new/updated accounting processes. This will be addressed through #26 below. It should also be noted that in this recommendation IA also suggested there be a process for staff to monitor items to frequently review and evaluate the outstanding items and past due items and elevete them for additional attention and prompt processing. IA provided this second part of the recommendation related to documenting how the Held Invoice database is used to track, monitor and prioritize payments, in the new recommendation under ENG #11. To streamline and simplify the recommendations, this recommendation will be considered Implemented since AP determines logging in the invoice held feature is a good control. The part regarding SOPs is in progress in Reco #26 and Eng #11 re utilizing the date in the invoice held feature continues to be In Progress. 8/3/2022 .** Prior Progress Update Response: 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

| 23 | Acct | 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 | | | On 8/2/22 the department responded the following: CHEM # 23 – SAP already has an AP aging report; but as discussed in Strike Team meetings, the aging report does not address invoices that are not yet in SAP and/or on hold. Until we have visibility of all incoming invoices there is no report that BIS can develop that would address the observation noted. As such, the Agency is looking into the implementation of an AP automation solution. Pending that solution, Accounting has worked with IT to develop dashboards using SAP data downloaded into an Excel pivots/charts. This new tool has been helpful to understand the historical invoice payment volume and rate of on-time payments. These dashboard charts are also now being used by the Strike Team Lead (Ryan Ward) to evaluate progress and have been presented to Agency Senior Leadership. Regarding the invoices on hold, IT has provided instructions on how to download that data into Excel, and staff can use it to help sort through the data as needed. Accounting has informal desk manuals for how to match and process payments in SAP; however, any updated written procedures or formal SOPs are pending the potential implementation of an AP automation solution. We consider this recommendation implemented as only the SOP is outstanding which is addressed under recommendation CHEM #26.

Prior Progress Update Responses: As of January 2022, 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 | 8/3/2022 Accounting has determined that placing all invoices in the "held" feature is the most efficient method to process AP items. There is currently a desk procedure on the uploading/intake of invoices using the "held" feature. Accounting stated that a final SOP will be formalized and finalized upon the implementation of all new/updated accounting processes. This will be addressed through #26 below. It should also be noted that in this recommendation IA also suggested there be a process for staff to monitor items to frequently review and evaluate the outstanding items and past due items and elevete them for additional attention and prompt processing. IA provided this second part of the recommendation related to documenting how the Held Invoice database is used to track, monitor and prioritize payments, in the new recommendation under ENG #11. To streamline and simplify the recommendations, this recommendation will be considered Implemented since AP determines logging in the invoice held feature is a good control. The part regarding SOPs is in progress in Reco #26 and Eng #11 re utilizing the date in the invoice held feature continues to be In Progress. 8/3/2022

Prior Progress Update Response: 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. |

| 24 | Acct | 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 | | | On 8/5/2022 Accounting responded the following: CHEM # 24 – IA's observation related to AP staff being unable to process payments when receiving hasn't been completed. The recommendation is to collaborate and train other departments for researching and resolving delays in payments. As noted in previous responses, Accounting works collaboratively with Agency staff in other departments throughout the day to resolve any issues, including resolving overdue receiving. We consider this recommendation implemented as only the SOP is outstanding which is addressed under recommendation CHEM # 26.

Prior Progress Update Response: 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 | 8/5/2021: Accounting has been meeting with the Admin Assistants periodically to discuss AP items, additionally, CAP's CAP Cafe has also been a helpful forum for staff to discuss transactions. This recommendation will be considered Implemented because CHEM #26 addresses the need for an SOP on the 3-way match process.

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 performing the 3-way match and process payments? Will the procedure specify the action states staff should take to ensure payments are made by the due date? Please provide a planned action to address the recommendation and a corrective action date.

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	Acct	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	**Response on 8/2/2022: CHEM # 25 – Accounting discussed reprogramming of SAP and was advised this would require a customization of SAP. With the implementation of new AP automation software this recommendation may become mute, so there was hesitancy to spend the time and resources on reprogramming. There were also discussions about changing the payment terms within the vendor files, so that SAP will process payments earlier than the actual contract terms. Accounting does not recommend this solution due to the loss of the integrity of the vendor data within SAP. As a work around, AP staff have been instructed to change the way payment runs are processed. When generating the ACH, wire, or e-payable digital file or physical checks, SAP prompts the user to indicate the date of the next payment run. Instead of putting the actual date of the next run, at most a week in advance, staff are now entering a date that is 3 weeks out. SAP will now pick up any posted payment transactions that are past due or due within the next 3 weeks, in accordance with vendor terms. In essence, this will allow SAP to process payments that aren't yet due. This change in process has been reviewed and approved by the Finance Director, direction has been given to AP staff to make this change, and it has been implemented. We consider this recommendation implemented as only the SOP is outstanding which is addressed under recommendation CHEM # 26.** Accounting management disagrees that all invoices are paid in the month after the due date. The table within this report titled "Late Payment Analysis" shows 57% of invoices are paid on time; and in the following table titled "Number of Invoices Paid Late…" of the total 935 invoices reviewed, 534 invoices were paid on time and 296 are paid within the following 30 days. The payment cycle is already defined as one week (Thursday – Wednesday), with physical checks only issued every other week. Currently, AP staff do not manually select which payments to issue; instead, SAP is setup to only process pending payments which are due or overdue on or after the payment date entered by AP staff (each week on Thursday). Accounting Management agrees SAP should be reprogramed to issue payments with invoice due dates prior to the payment date. With consultation from Executive Management over Finance, Accounting, and BIS on this change in the Agency's business practice, we will work with BIS to implement this change. Since this recommendation	**8/5/2022: This response applies to both Chem #25 and ENG#15, IA will not test this added alternate method to see if this is being implemented. The actual, approved process should be documented in the Department SOP. Because Accounting has stated that the AP automation might assist the process and because the department has stated that due to the signifcant resources on reprogramming SAP, this recommendation will be considered no longer applicable.** 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 | Acct

SOP | 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** | | **Response on 8/2/2022: CHEM # 26 – Updated formal SOPs remain outstanding. At this time, dedicating AP staff to revising the SOPs will only slow down invoice processing. Even if an outside consultant is retained to document AP processes, staff will need to be interviewed, verify accuracy of documentation, and test the new SOPs. Further, the Agency is in process of obtaining AP automation software which will change the SOPs. While Accounting management agrees that updated SOPs are best practice, the existence of SOPs does not necessarily increase efficiency or on-time vendor payments. Additionally, Accounting already has many informal "desk manuals" that are used by new staff to guide then on the steps for processing; while not in standard Agency SOP format, these desk manuals are effective in providing new and temporary staff instruction on how to process payments. In regard to a timeline of completion, we will align to and incorporate this task as part of implementation of any new AP automation software - TBD. Staff also stated that while we continue to make changes to payment processes, we believe it would be a better use of staff time to wait until we finish other payment solutions.**

Prior Progress Update Response: 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 | 8/5/2022: this recommendation is specific to how and what items AP staff select to perform the 3-way match and process payments. Accounting has committed to completing all SOP's after all processes have been finalized and adopted. This recommendation will be considered In Progress until the SOP is documented.The department can provide desk procedures or draft SOPs for IA's review or provide an approximate timeline for implementation to consider this In Progress.

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. |

| 27 | Acct Training | Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures. | | X | | | **Response on 8/2/2022: CHEM # 27 – Training on new SOPs is outstanding since updated SOPs aren't completed. Note that training of AP staff is provided on an ongoing basis as needed. Existing SOPs and desk procedures are provided to new AP staff as part of the onboarding and on-the-job training process.**

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. | **8/5/2022: This recommendation will be considered In Progres - there are no final SOPs to provide staff training on current process. However, the department processes are evolving and new staff have been hired and training is on-going. IA requests a "plan for on-going and future training", for example, types of training, timeline and plans, etc. Accounting staff have not provided an anticipated date for documentaion of SOPs or planned 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 for an In Progress status. <u>Additionally, Accounting staff should consider providing some type of training now even if SOPs have not been finalized, also for an In Progress status</u>.** |

29	Acct KPIs	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		**Response on 8/2/2022: CHEM # 29 – The primary AP KPIs related to invoice processing is to ensure payments are made to vendors within contract terms (no late payments), as well as not having audit findings from the external auditor related to vendor payments. IT developed a dashboard using SAP data uploaded into Excel pivot table / charts which shows how many PO invoices (VI documents) and non-PO invoices (VM documents) were paid on-time and the total volume per month. This dashboard has helped management look at historical and current on-time pay rates. The Agency is looking at an AP automation solution which includes analytic reports, allowing for easier monitoring of vendor payments. Once that solution is implemented, Accounting management will identify what monitoring reports best serve our needs to measure performance, and if any additional KPIs should be tracked.** Prior Progress Update Response: 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	8/5/2022: The response indicates that the department will explore KPIs after the AP automated solution is implemented. The recommendation will continue to In Progress as with the prior progress report until KPIs have been established. Prior Progress Update disposition: 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	Acct SOP	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		**8/2/2022 response proviced: CHEM # 30 – This recommendation is to update SOPs which is addressed under CHEM # 26.** Prior Progress Update Responses: 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.	8/5/2022: This recommendation is related to SOPs. This specific Reco #30 is related to documenting the requirement for completing receiving, matching and processing payments, <u>to specify the types of documents that should be included and verified in SAP or other required reports needed before payments are processed - specifically to address the need for a Bill of Lading or other deliver document.</u> **Recommendation Chem #26 is related to document the process for when and how the matching is completed and when payments are porcessed only. This recommendation, CHEM #30 steamed from the audit finding where 35% of the Bill of Lading items were mising. If these documents were missing, how was accounting able to complete the 3-way match? While Chem #26 suggests the SOPs, CHEM #30 suggests incorporating details of the information that should be obtained and used to complete the matching. If accounting has a desk procedure, please provide for IA review. Both #26 and #30 will be considered In Progress.** 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 | Acct SOP | 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** | | | 8/2/2022 response proviced: CHEM # 31 – This recommendation is to update SOPs which is addressed under CHEM # 26.

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.) | 8/5/2022: This is a 4 part recommendation re SOP:
1. SOP re receiving, matching and processing pmts. This first item is being addressed under CHEM #26
2. Specify the types of documents that should be included and verified in SAP or other required reports.
3. Specify that the invoice received by AP should be documented with a date received and uploaded into SAP and accurately matched to the corresponding transaction.
4. develop a report that shows all outstanding invoices - this portion of the recommendation is being addressed under CHEM #23 re Aging or other tracking report.

Reco #31 is related to the findings noted in the report: 8% of items tested did not include an invoice in SAP. How did AP staff complete the matching and the payment? In 3% of items tested AP staff did not document the date the invoice was received (no date-stamp on invoice).
In 13% of items tested there was a difference in the amounts paid when compared to the amount of the vendor's invoice.
A policy or SOP should incorporate the requirements for the detailed items needed and the supporting documents that should be included. Recommendation Chem #26 is related to document the process for when and how the matching is completed and when payments are porcessed. This recommendation will be considered IP until all items are addressed in new SOP or alternate controls or department disagrees with the 2 remaining items.

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 | Acct SOP | 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** | | | 8/2/2022 Response provided: CHEM # 32 – **Accounting staff communicate with Agency receivers on a daily basis. Accounting staff additionally participate in the CAP Café and other trainings, such as the Fiscal Year End Training, to advise receivers on best practices. We consider this recommendation implemented as only the SOP is outstanding which is addressed under recommendation CHEM # 26.**

Prior Progress Update Response: 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.) | 8/5/2021: **The intent of the recommendation is meant to have accounting take the lead to clarify, inform and emphasize the importance of data entry accuracy with regards to dating information. The finding related to this recommendation noted that 15% of items tested had incorrect/inaccurate dates or data resulting from either data-entry errors or back-posting information. This recommendaiton will remain In Progress if accounting will address this in an SOP or if there is any communication re these. CHEM #26 is specific to an SOP for procedures related to matching and processing payments.**

Prior Progress Update disposition: 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 | Acct SOP | 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 or that items are processed by the payment terms. | | X | | | 8/2/2022 Accounting response: CHEM # 33 – This recommendation is to update SOPs which is addressed under CHEM # 26.

Prior Progress Update Responses: 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)). | 8/5/2022: Recommendation #26 specifically relates to documenting the methodology for performing the matching and processing payments. This reco #33 is a 4-part recommendation:

1. to document a procedure for the expectation of accuracy of data - this is going to be addressed with CHEM #32 above.
2. to specify the expected time frame for processing the invoce - uploading it in the database, when 3way match should be completed and process for payment. These would provide the metrics needed to track the performance of AP duties and track the progress of invoices. This part of the recommendation is In Progress, pending completion of all SOPs and KPIs established as well as training.
3. to specificy how invoices are monitored to ensure they are paid on time. This is being addressed through the recommendation related to creating an aging or other tracking report that provides visibility of all invoices received and through the implementation of the software system.
4.to specify how delayed items should be handled and communicated. This part of the recommendation requires 2 above be completed so there is a monitoring tool then there needs to be some communication or procedure on what is done when items are delayed.

This recommendation was also provided as a result of the audit findings in the report:
20% of items tested were paid after the invoice due date even when the receiving was completed within less than 15 days. What measures can AP put in place to prevent late payments when receiving is done timely?
80% of items tested were paid late because receiving was completed date. However, the payment was issued between 1-180 days after the receiving was completed and they invoices were already overdue. What tool/method does AP have to monitor late invoices/late receiving?

There does not appear to be any procedurs for handling delayed items and there does not appear to be a systematic method to select items that have been received for timely payment.

Prior Progress Update disposition: 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 | Acct

SOP | 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** | | **8/2/2022 Accounting response: CHEM # 35 – This recommendation is to update SOPs which is addressed under CHEM # 26.**

Prior Progress Update Response: 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)). | **8/5/2022: Recommendation #26 specifically relates to the method for when and how the 3-way match process is selected and how invoices are selected and processed for payments. This reco #35 is specifically related to:**

1. the requirements of AP staff to open/download, date, upload and match and process invocies in SAP and process payments on time. What is the acceptable timefram for AP staff to acknowledge the invoises and upload for monitoring and tracking?
2. indorporate goals/objectives and KPIs specific to AP staff duties.

The original audit findings noted that 13% of the items tested, AP staff "received by AP staff date" was more than 30 days after the vendor's invoice date. This delayed the invoice processed by AP. 30 days after the invoice date will make the payment late. In these items all invoices were emailed to the AP email address. There were no reference notes as to the reasons for the delay in the receiving of the invoice. There needs to be a consistent method for the timing of retrieving the invoices and uploading them to begin the payment process.

This recommendation will continue to be In Progress until the department determines a method with timelines/metrics for the different activities.

Prior Progress Update disposition: Per responses provided on 2/17/22, the provided draft SOP and the timeline to finalize SOPs, IA will consider this recommendation In Progress. |

| 10 | Acct | The Accounting management evaluate and make necessary updates to its internal processes and procedures to e**nsure 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 | | | Response provided on 8/2/2022: ENG # 10 – Accounting believes a significant benefit to implementing an AP automation software solution will be the ability to capture and make visible within the system all incoming invoices, as well as provide a workflow and/or forwarding capability within the system which is more efficient than the current process. Meanwhile, to increase the efficiency of forwarding invoices that need approval, the AP team has created a "cheat sheet" using Excel of service vendors and the associated department personnel the invoice should be forwarded to. This guide is now being used by the Accounting Interns responsible for mail processing, invoice in-take and forwarding. Accounting has also been using an invoice in-take log to capture all invoices that come into the Accounting department. Accounting management believes the best solution for this audit observation will be AP automation software. Although selection and implementation of the software is still pending, see recommendation ENG # 12, that solution was not part of this recommendation; as such, Accounting considers this recommendation implemented as noted. Additionally, staff stated that staff is instructed to review the inbox and mail daily and forward to the appropriate department immediately.

First Progress Update Response: 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. | **8/5/2022: This is a 3-part recommendation and accounting agrees with the recommendation:**
1. Invoices should be immediately sent to departments: Is this being done, if so how?
2. create a reference list of the professional services with the corresponding department to help in routing. Per the response provided by accounting, the "cheat sheet" should facilitate identifying where the invoices go. This portion of the recommendation will be considered implemented pending IA receives a copy of the cheat sheet.
3. Invoice Held tracking: Per accounting, all invoices are now tracked in the invoice held feature.

First progress update disposition: 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** | | | Response on 8/2/2022: ENG # 11 – The recommendation is to create monitoring reports, specifically to review invoices that are pending in MIR6. Accounting does not believe that is necessary, as AP staff and management can look at and review the items on hold using the existing SAP screens. Working with IT, staff now know how to download this data into Excel to view/sort more easily as needed; see also CHEM recommendation #21. As such, Accounting management disagrees with the recommendation and instead suggest that purchase and implementation of an AP automated software solution that includes monitoring reporting capability is a better solution; see ENG recommendation # 12. Accounting doesn't agree with this recommendation.

Prior Progress Update Response: 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.)* | **8/5/2022:**
This recommendation may be similar to CHEM #21 but it is not the same. As noted, the recommendation was Updated for this report only.

The "new recommendation" suggest for accounting, as a best practice, to implement a method/report for viewing, tracking, monitoring and prioritizing all invoices to plan to make all payments timely, specifically to monitor all payments in one report with greater visibility. Based on the response provided by Accounting - The department will not be using the invoice held information to assist with tracking, monitoring and prioritizing making payments, the department believes navigating through the various screens for view items on hold. One single report would perhaps be more efficient.

The department now disagress with the recommendation, does the department have an alternate control that is in place to track, monitor, view and prioritize invoices for payment? If so, please provide a copy to clear the recommendation. If the department will wait until the software solution is implemented, this recommendaiton will continue to be in In Progress.

Prior Progress Update Disposition:
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, prioiritizing and making timely payments.   The recommendation suggest to document this iinot a procedure to assist with consistency of this process.

The recommendation was not addressed. This recommendation is considred 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			**Response on 8/5/2022: ENG # 12 – Accounting agrees with this recommendation and implementation is in progress.** Prior Progress Update Response: 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 as solution is purchased, we will need to revise any relevant SOP related to vendor payment processing.	8/5/2022 Recommendation is In Progress. Accounting continues to work with IT attending demos from 2 different vendors. Prior Progress Update disposition: 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 <u>supervisor at the end of each month to ensure open items are cleared,</u>** •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			**Response on 8/2/2022: ENG # 13 – This recommendation is to update SOPs which is addressed under CHEM # 26.** Prior Progress Update Response: 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 identify 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	8/5/2022: This recommendation specifically suggests that accounting establish a procedure or process for 4 items and by procedure/process it is intended to be an actual step in the process, a control, an added tool; <u>this recommendation is not indicating a written/documented SOP is needed</u> as that is addresse separately. The processes recommended are: 1) to track all open invoice issues 2) open invoice issues are reviewed by a supervisor to ensure these are cleared 3) research a more efficient process to expedite the 3-way match 4) utilize a software tool for invoice management. Per all responses 3 is being addressed under prior recommendation, 4 is also it's stand alone recommendation in Eng #12. Accounting needs to address 1 and 2 and demonstrate there is a control or process in place for these and demonstrate how. These are provided as a recommendation because the findings under this audit were that 73% totaling over $1M in professional services invoices were paid late in FYs2019 and 2020. The follow up question is: what alternate controls and best practices can accounting demonstrate to show that these findings/recommendations are being addressed? This recommendation will be considered in progress becasue 2 of the 4 bullet points are being addressed under other recommendations and anticipating accounting has adopted different processes to address the first 2. Prior Progress Update disposition: 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

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			**8/2/2022 response provided: ENG # 14 – The solution suggested is purchase and implementation of AP automation software, as outlined under recommendation ENG # 12. Accounting requests this recommendation be changed to "NA" and/or combined with ENG # 12.** Prior Progress Update Response: 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.)	**8/5/2022: This is a 3-part recommendation - the original finding was related to making the routing of service invoices more efficient and eliminating the lack of visibility of the invoices when routed. The 3 parts are:** **1- work with IT re Sharepoint - this part has been addressed, per emails and correspondence related to new improvements.** **2-utilizing workflows to route invoices - this part is In Progress pending the implementation of a software tool.** **3-formal, <u>documented</u> procedures specific for Accounting and department staff <u>using SharePoint</u> -** **this is being addressed through - based on recent review of email correspondence, this is being drafted for email distribution.** **IA considers this recommendation In Progress pending finalizing the process for the various sharepoint folders and the instructtions on using such.** Prior Progress Update Disposition: 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 | **8/2/2022 Response provided: ENG # 15 – This recommendation has been implemented; see recommendation CHEM # 25. The remaining recommendation is to update SOPs which is addressed under CHEM # 26.**

Priro Progress Update Response: 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. | **8/5/2022: Per response also provided for Chem#25, staff stated they are implementing an updated process to "ensure they putting the actual date of the next run, at most a week in advance, staff are now entering a date that is 3 weeks out, therefore, SAP will now pick up any posted payment transactions that are past due or due within the next 3 weeks, in accordance with vendor terms IA will not test this added alternate method to see if this is being implemented". Because Accounting has stated that the AP automation might assist the process and because the department has stated that due to the signifcant resources on reprogramming SAP, this recommendation will be considered no longer applicable.**

Prior Progress Update Disposition: 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 pending finalization of the items above. |

| 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 | | | | **8/2/2022 Response provided: ENG # 16 Accounting has implemented a new internal email address APInternal@ieua.org and sent out notification introducing the new way for Agency staff to communicate with AP on 6/23/22. Accounting management has advised Agency staff through meetings with Admin Assistants and Engineering Management that it is optional to send confirmation of receiving; however, most Agency staff continue this process, but using the new internal email. Accounting considers this recommendation implemented.**

Prior Progress Update Response: 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.) | **8/5/2022: Recommendation is considered implemented. As a follow-up, IA would like to document if this new email and process is being utilized and is it efficient for accounting? Per the new process implemented, IA will consider this recommendation implemented.**

Prior Progress Update disposition: Quick follow up question - Does E&CM understand when to send an email to inform 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

SOP | 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 | **8/2/2022 Response provided: ENG # 17 – This recommendation is to update SOPs which is addressed under CHEM # 26.**

Prior Progress Update Response: 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. | **8/5/2022: This recommendation is related to SOPs. Specifically related to indicate 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. As stated in the recommendation, this is the same recommendation as Chem #26 and this ENG #17, IA will follow up on only one, CHEM #26, this recommendation will be noted as no longer applicable and closed.**

Prior Progress Update Response: 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 | **8/2/2022 response provided: ENG # 18 – This recommendation is to update SOPs which is addressed under CHEM # 26.**
Prior Progress Update Response: 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 staff will need to be trained on the new procedures. | **8/5/2022: This recommendationis related to training that should be provided to reinforce SOPs and should be done once new procedures are implemented, but can also be provided as new procedures are being adopted. As stated in the recommendation, this is the same recommendation as Chem #27 and this ENG #18, IA will follow up on only one, CHEM #27, this recommendation will be noted as no longer applicable and closed.**

Prior Progress Update disposition: 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 | 8/2/2022 ENG # 19 – This recommendation is to establish KPIs which is addressed under CHEM # 29.

Prior Progress Update Response: 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.) | **8/5/2022: This recommendation will be consolidated inot one KPI recommendation. As stated in the recommendation, this is the same recommendation as Chem #29 and this ENG #19, IA will follow up on only one, CHEM #29, this recommendation will be noted as no longer applicable and closed.**

Prior Progress Update disposition: 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 | 8/2/2022 Response provided from Accounting: ENG # 20 – IA observed that the Finance Department has experienced staffing shortages due to turnover and retirements . This situation continues to-date, and Accounting management believes this is the most significant factor affecting the ability to process vendor invoices timely within Accounting. Measures to address this issue have included: use of temporary staff (July, 2021 – current), hiring 2 Interns (Feb, 2022), hiring replacement for retired Accounting Technician (original offer to candidate December, 2021 who ultimately decided not to join agency, then final placement of alternative candidate as of March, 2022), conversion of temporary staff to LT Accounting Technician (April, 2022), and re-hiring retired AP staff as an annuitant (pending – tentative start date of 8/15/22.) Additionally , AP hourly staff have been working overtime hours up to 50 hours per week since July 2021. As of August 2022, the Accounting unit has 3 vacancies: 2 FTEs Senior Accountants and 1 FTE Accountant I/II; the recruitments are in-process. | 88/16/2022 Per discussion, Management feels that the current staff brought on board are addressing the staff shortages. There is a continued use of temps to assist. Additional processes are being implemented and additional recommendations are being implemented through this process. Additionally, the implementation of the software solution will address some of the recommendations. This recommendation will be considered No Longer Applicable.

8/5/2022 Per Accountings response and Director Meetings, this recommendation is on-hold and considered In Progress pending additional changes and updates to AP processes and needs evaluated by Accounting and the leadership team. At this time IA determines this will be In Progress pending final disposition.

This recommendation is considered In Progress at this time due to discussions and various meeting being held at various levels of the organization. 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.

IA requires a firm yes, will move forward with all items of the recommendation or no, not at this time to clear the recommendation. |

9	Acct	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).				X	**8/2/2022 Response received: P&R # 9 – Accounting management believes the timeliness of routing invoices will improve with measures implemented as noted under recommendation ENG # 10. Additionally, an AP automation software solution should improve visibility of pending invoices; see recommendation ENG # 12.**	8/5/2022:This is a 4-part recommendation: 1. evaluate if current or new technologies can be leveraged for AP activities. The Agency is moving forward with evaluating a software tool for the upload, tracking and routing of invoices. This part of the recommendation is considered in progress and is being addressed under prior recommendations; therefore no longer applicable here. 2. Work with P&R to evaluate SharePoint similar to E&CM. Per recent correspondence information, this is being implemented, pending communication from accounting to departments for how to use the folders. This part is In Progress 3. Establish a system/method for uploading and routing vendor invoices - this recommendation is being addressed through prior audt recommendations - therefore In progress. 4. establish a metric and goal for how many days it should take to route the invoice from AP. **AP did not address this** it is unclear if Accounting plans to establish this metric. Elements of this recommendation are being addressed through other prior audit recommendations, example CHEM #35 and ENG #12. IA will consider this NLA and follow up under the prior audits. Should be noted that this recommendation is restated in this P&R audit because of the audit findings: 25% of items tested it took AP longer than 30 to accknowledge receipt of the vendor invoice and in 10% of the items tested it took AP longer than 30 to route the invoice. Are there metrics for AP activities? Additionally, in 20%of items tested, the routing was initiated by P&R because the invoice was not sent to the department by Accounting. P&R noted that for calendar year 2022, Accounting did not send them any invoices (as of May).

10	Acct	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 the invoices (project/contract, PM, etc.).		X			8/2/2022 Response received: P&R # 10 – Recommendations implemented under other audit observation; see recommendation ENG # 10. Accounting considers this recommendation implemented.	This recommendation is considered In Progress per the updates provided and discussed with Planning. 8/5/2022: In Reco ENG #10,currently In Progress, accounting stated that they belive there will be a significant benefit to implementing an AP automation software solution with the ability to capture and make visible within the system all incoming invoices as well as provide a workflow capability wich will be more efficient than the current process. This response indicates that AP is supportive and pending the implementation of the new AP software tool and will rely on this tool to establish a consisten system and best practice for uploading and routing ventor invoices to the correct department. In the response provided AP did not address the fourth item which states that the department work with vendors to request they add additional identifying information on the invoices so that it assists identifying where the invoices go. IA determines this recommendation as In Progress until Accounting can provide a final disposition for item #4 to determine if this is something they will work on. All other items of this recommendation will be considered No Longer Applicable since the software solution will be addressed under ENG #12. And the routing of professional service invoices are being addressed through ENG #10.
11	Acct	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.		X			**8/2/2022 Response received: P&R # 11 – A meeting was held on July 18, 2022 with P&R management and administrative personnel. No specific changes to procedures resulted. Accounting management believes implementation of an AP automation software will allow for AP visibility of invoices being routed for signature; see recommendation ENG # 12.**	**8/5/2022: The intent of the recommendation is to eliminate the many emails that come to accounting from internal and external sources. It is unclear what the consistent message and process will be. It is unclear what the process will be. When reviewing the response in ENG #16 re the new internal email address and this response and our discussion with Planning, it is unclear what the communication to staff is and what Accounting will do. Accounting is choosing to keep the same process in place and not make any changes or modification to the current communication process. Accounting believes that the implementation of the software solution will be a benefit to this process. IA considers this recommendation In Progress until there is one consistent method accross the Agency to simplify the process and to assist with eliminating the email traffic.**
Restated	Acct	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 to Accounting, is currently In Progress of being addressed)*						

Restated	Acct	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)*
Restated	Acct	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 expediate 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 to Accounting, is currently In Progress of being addressed).*
Restated	Acct	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).*
Restated	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 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).*
Restated	Acct	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 currently In Progress and were planned for completion)*
Restated	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 P2P Chemicals audit and the P2P E&CM audit and according to Accounting, currently In Progress of being addressed)*
Restated	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 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.)*

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Audit Recommendations	
Operations Unit	12	0	0	4	16	**100% Implemented** **All 16 recommendations have been addressed.**
Engineering & Construction Management	2	4	0	1	7	**2 of 7 recommendations 29% have been addressed.** **4 of 7 recommendaitons 57% are in progress.**
Planning	4	0	0	2	6	**100% Implemented** **All 6 recommendations have been addressed.**
Contracts and Procurement	7	1	0	1	9	**Only one recommendation requires attention - re Agency Policy A-51 procurements.**
Accounting	4	16	0	9	29	**13 of 29 recommendations 45% have been addressed.** **16 of 29 recommendations 55% are in progress.**
Total Recommendations	29	21	0	17	67	**43% Implemented** **31% In Progress** **25% No Longer Applicable**
Percentages	43%	31%	0%	25%		

Progress Update for All Procure to Pay Audit Recommendations

Teresa Velarde

Manager of Internal Audit

September 12, 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.

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

Audit Observations & Recommendations
- There are delays with the receiving of goods and services
- There are delays with processing payments
- 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

P2P Audits Completed to-date

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

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

- **P2P for Professional Services – for P&R (Planning and Resources)**
  - Completed May 24, 2022
  - 11 audit recommendations

- **P2P for Home Depot Credit Cards**
  - Completed September 1, 2022

Audit Recommendations Related to the P2P Audits

Current Status of the 67 Audit Recommendations

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Audit Recommendations	
Operations Unit	12	0	0	4	16	100% Implemented All 16 recommendations have been addressed.
Engineering & Construction Management	2	4	0	1	7	2 of 7 recommendations 29% have been addressed. 4 of 7 recommendaitons 57% are in progress.
Planning	4	0	0	2	6	100% Implemented All 6 recommendations have been addressed.
Contracts and Procurement	7	1	0	1	9	Only one recommendation requires attention - re Agency Policy A-51 procurements.
Accounting	4	16	0	9	29	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Total Recommendations	29	21	0	17	67	43% Implemented 31% In Progress 25% No Longer Applicable
Percentages	43%	31%	0%	25%		

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

Results of P2P Audit Recommendations

Of the 67 recommendations:

- **29 are now Implemented**
- **21 are in progress of being implemented (42% of the remaining items)**
- **17 are considered no longer applicable**

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

Highlights –
Contracts and Procurement

CAP has implemented the following:

— 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 –
Operations & Maintenance Unit

- Leveraging technologies across all treatment plants.

- *New goal set to complete receiving into SAP within 5-7 days*

- Finalized Department Standard Operating Procedure (SOPs)
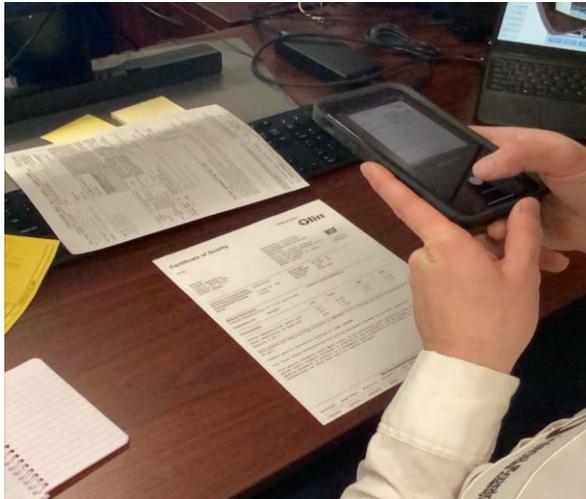
Goods Receiving and Payment Tracker
GR Entry Date:2/1/2022 - 2/28/2022
Company Code: 1000
Receiver(s): BMCDONALD, BHUNTER
Vendor(s): 906237

Count of GR Documents with Days to Receive

- 1 - 7 Days to Receive
- 8 - 14 Days to Receive
- 15 - 30 Days to Receive
- 31 - 60 Days to Receive
- 61 - 90 Days to Receive
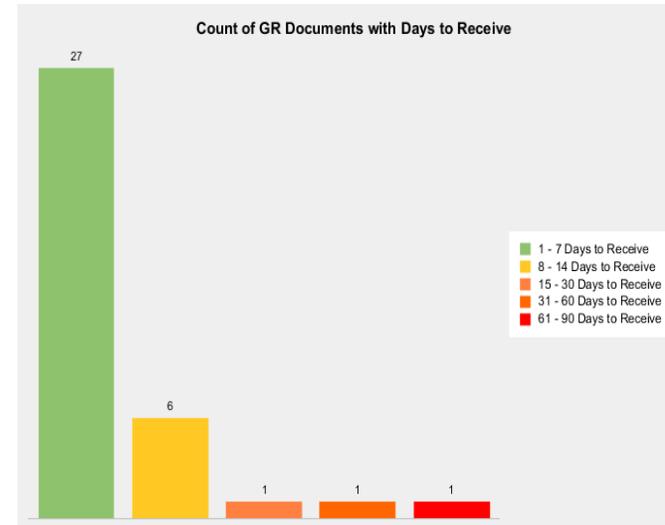
Highlights – Accounting Unit

- Filled staff vacancies

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

- Tracking all invoices with the new Invoice Held feature in SAP

- Working with IT to evaluate software solutions

Highlights – Information Technology

1. Goods Receiving and Invoice Payment Tracker

2. MIR6 Held Invoices Download

3. Invoice Sites to Route Invoices to

4. Payment Status Dashboard

5. Early Payment Training

6. 2-Way Match Viability

7. Invoice Automation – Review of software vendors

In progress

- Email ACH Remittances –

- Invoice Automation –

- P-Card – Implementation of P-Card file transfers for transaction data

Additional Procure to Pay Audits

In Progress

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

Planned

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

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.

Questions?

INFORMATION
ITEM
2D

![Inland Empire Utilities Agency — A Municipal Water District logo]

Date: September 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

09/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Warehouse Annual Physical Inventory & Monthly Cycle Counts

Executive Summary:

Internal Audit (IA) staff completed the observation of the monthly cycle count for the physical inventory of a selected sample of warehouse inventory for the month of June 2022. The purpose was to observe the count as part of the annual financial audit process and to coordinate audit efforts with the Agency's external financial audit firm. The annual inventory count and the monthly cycle counts are a best practice process performed before the completion of the Annual Comprehensive Financial Report to validate the total inventory assets dollar amount posted to the financial statements. IA recommended that the inventory each year, include all or a substantial material amount of the inventory items in terms of quantity of items and total dollar value of the whole inventory in order to justify the value of the inventory reported on the financial statements. Additionally, IA recommended staff document the inventory methodology in a procedure. The accuracy rate during the past three physical inventory counts has been 99%, therefore, it is the position of the Warehouse management staff to continue with the current method of scheduling biannual physical inventory of all items and a sample of items for monthly cycle counts throughout the year. IA will continue to participate in inventory observations each year along with the the external financial auditors. The current inventory methodology is described in detail in the attached. IA recommendations have been addressed by staff.

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 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 Annual Audit Plan. The Plan proposed, under ongoing projects includes the observation of the physical inventory and review of the Annual Comprehensive Financial Report.

Environmental Determination:

Not Applicable

Business Goal:

The Warehouse Physical Inventory & Monthly Cycle Counts Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations 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 - Warehouse Annual Physical Inventory & Monthly Cycle Counts
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: August 25, 2022

TO: Shivaji Deshmukh
               General Manager

FROM: Teresa V. Velarde
               Manager of Internal Audit

SUBJECT: Warehouse Annual Physical Inventory & Monthly Cycle Counts

Audit Authority

The Internal Audit Department (IA) observed the monthly cycle count for the physical inventory for the month of June 2022 at the Inland Empire Utilities Agency's (IEUA or Agency) Warehouse. The observation was performed under the authority given by the IEUA Board of Directors as documented in the Board approved IA Charter.

Audit Objective and Scope

The purpose of IAs observation of the monthly cycle count was to observe the count as part of the annual financial audit process, and to coordinate audit efforts with the Agency's external financial audit firm, CliftonLarsenAllen,LLP (CLA), and to be available as an audit resource on behalf of the Agency. Additionally, the purpose was to perform an independent spot check to verify the monthly cycle count.

Background

The Agency carries approximately $1.7M of inventory assets on the Agency's financial statements (according to the FY 2020/21 inventory results). The annual inventory count and the monthly cycle counts are a recommended best practice process performed before the completion of the Annual Comprehensive Financial Report (ACFR) to validate the total inventory asset dollar amount posted to the financial statements.

Currently, there is no documented Agency policy or procedure that documents the method for conducting the Agency's warehouse physical inventory. Performing an inventory is a recommended best practice and internal control over Agency assets.

Water Smart - Thinking in Terms of Tomorrow

Steven J. Elie	Michael Camacho	Marco Tule	Jasmin A. Hall	Paul Hofer	Shivaji Deshmukh
President	*Vice President*	*Secretary/Treasurer*	*Director*	*Director*	*General Manager*

On Tuesday, June 21st, 2022, present at the monthly cycle count were Agency representatives from the Warehouse, Accounting, IA, and an auditor from the Agency's external financial audit firm, CLA.

Current Inventory and Cycle Count Practice
The current practice requires Warehouse staff to perform a comprehensive annual physical inventory of all Warehouse assets every other year (currently odd number years, last physical inventory was for FY 2021) and perform monthly cycle counts every year. The monthly cycle counts randomly selects approximately 2% of the warehouse items for physical review and inventory. This translates to conducting a physical inventory of approximately 24% of the warehouse items during the fiscal year. The dollar value of the items physically counted is not evaluated/recorded in relation to the annual value of the inventory. Cycle counts are a good best practice control, and they are recommended to ensure problems are identified early before they become larger problems, additionally to aid in ensuring the accuracy of the biannual physical inventory count.

According to staff, to coordinate, prepare and perform the annual physical inventory, the warehouse and/or the ERP system is required to be closed/inactive for requests and fulfillments for approximately a full week during the month of June. The annual inventory requires approximately 4-6 Agency employees to perform the physical counts. The annual physical inventory occurs after staff have taken time and resources to plan for and prepare in anticipation of the physical inventory (pre-counts, downloading data, other Warehouse and Accounting activities, etc.)

IA has evaluated the current process for monthly cycle counts and determines that the current method for monthly cycle counts does not meet the intent or the purpose for the annual physical inventory because it does not physically inventory a material amount of the items in terms of quantities and dollar value. As noted above, the purpose of the physical inventory is to physically inspect the warehouse inventory items and validate, with certainty, the dollar value recorded on the Agency's financial statements.

Improvements to the current cycle count methodology can be made by selecting more items to ensure the cycle counts capture a material portion of the Agency's whole inventory and/or all inventory in a fiscal year. Counting 100% of the items in the year through cycle counts would be an ideal and best practice methodology, for the purpose of eliminating the annual physical inventory at fiscal year-end but capturing a material amount of the dollar value and the total quantities would also be a justifiable methodology. Another option is to keep the current cycle count methodology for the purposes of spot checking and also include an annual physical inventory every year for the purpose of the financial statement requirement.

The Finance Department strongly recommends that an annual physical inventory be completed each year and suggests keeping cycle counts as an additional internal control.

Below are Internal Audit's Recommendations:

IA Recommendations

1. *Warehouse staff ensure that the cycle counts for the entire year, capture all or a substantial material amount of the inventory in terms of quantity of items and total dollar value of the whole inventory, to validate with certainty and to justify the value of the inventory reported on the Agency's financial statements.*

   There are various ways to accomplish this recommendation. The following are suggestions:

   - *Perform a complete annual physical inventory every year.*

   - *Perform a complete annual physical inventory every other year and on the opposite year, perform cycle counts that inventory all or a material amount of the inventory in terms of quantity of items and the total dollar value of the total inventory.*

   - *Other methodology that addresses the recommendation.*

2. *Warehouse staff work closely with Accounting staff to ensure the inventory methodology is documented in a formal department policy or procedure to ensure consistency and continuity of the inventory and to demonstrate that the intent of performing inventory is to validate the value of the inventory reported on the Agency's financial statements. Additional procedure/policy considerations should include cycle count methodology, evaluating and handling slow-moving and obsolete inventory items, other efficiencies, etc.*

Warehouse Response:
The Warehouse staff stated that they will continue their inventory process the same way. Staff will perform a bi-annual physical inventory on the odd years and continue with monthly cycle counts every fiscal year using the current/attached procedure of 50 items/month to randomly spot check throughout the fiscal year. The monthly counts will be completed prior to the formal annual inventory led by the Accounting Department].

Warehouse staff stated that based on the accuracy rate of more than 99% on the past 3 physical inventory counts, they see no need to change the process at this time.

The proposed methodology for the bi-annual inventory and the monthly cycle count are included in the attachments to this report. Additionally, the results of the prior three annual physical inventory are also attached.

For recommendation #1, the response provided by the department appears to be a reasonable, justified approach and response. Warehouse staff consider their methodology to be cost-effective and responsive to the current operations of the Warehouse. IA will continue to participate in the annual physical inventory and accompany the external auditor during their spot check. If warranted and when appropriate, additional audit recommendations will be provided based on the results of the physical inventory, annual audit, or new guidance and information that may come from the External Financial Auditors. Because the department has documented their methodology and justification, recommendation #1 is considered implemented and closed.

For recommendation #2, the attached are considered desk procedures utilized by Warehouse staff. The procedures satisfy the requirements of the recommendation. Warehouse staff should consider documenting the procedures into a formal department Standard Operating Procedure and follow the guidelines provided by Agency Policy A-51. IA is available to assist in the review of any procedure prior to finalizing. Recommendation #2 is considered implemented and closed.

Both recommendations have been addressed, no further follow-up work is required. IA is available to participate each year during the annual physical inentory and the external auditor's spot check.

Acknowledgements
IA would like to extend our appreciation to the Warehouse and Accounting for their cooperation and assistance during this review. IA provided this audit report in draft format and discussed the results and all audit recommendations with all respective Directors, Managers and Supervisors for their input and comments. Their comments have been incorporated prior to finalizing this report. IA is available to perform additional audit work.

The Warehouse Physical Inventory & Monthly Cycle Counts Report is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Warehouse Annual Physical Inventory & Monthly Cycle Count

Sapna Nangia

Senior Internal Auditor

September 12, 2022

Warehouse Annual Physical Inventory & Monthly Cycle Count

Current Practice:

- Biannual Physical Inventory of all inventory
    - a comprehensive annual physical inventory of all Warehouse assets every other year (currently odd number years, last physical inventory was for FY 2021)

AND

- Monthly cycle counts are performed every month, every year
    - of a random sample of approximately 2% of items during each cycle count

The Warehouse staff documented a procedure to record this methodology.

Warehouse Annual Physical Inventory & Monthly Cycle Count

- Annual financial audit process

- Approximately $1.7M of inventory assets on the Agency's financial statements (according to the FY 2020/21 inventory results)

- Best practice to perform an annual physical inventory

- The last 3 complete physical inventory reviews have shown an accuracy rate of more than 99%.

The Warehouse Annual Physical Inventory & Monthly Cycle Counts 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 internal control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Questions?

INFORMATION
ITEM
2E

Date: September 21, 2022

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

Committee: Audit   *09/12/22*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Water Use Efficiency Programs Audit - Follow-Up Review

Executive Summary:

Internal Audit (IA) staff completed a follow-up review to provide the implementation status of the six recommendations provided in the original 2017 audit report related to the Water Use Efficiency (WUE) Programs Audit. Annually, the WUE staff prepare the WUE Programs Report for the purpose of tracking water savings achieved through the various water conservation programs and the funding amounts related to each.

Based on the results of IA's follow-up review, all six recommendations are now considered implemented. Five of the original recommendations were for the WUE staff to address in the current WUE Programs' Reports. The recommendations related to improving the program as well as the information reported in the annual report to ensure the criteria and information used and referenced is clear, credited and can be compared from annual report to annual report. One recommendation for Accounting staff was related to making improvements to processes to minimize and eliminate the need for prior period adjustments related to projects, in the annual financial statements. IA noted there have been no prior period adjustments in the prior three fiscal years. All recommendations have been addressed. The complete report with details of each recommendation is attached.

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 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 Annual Audit Plan. The Plan proposed follow up reviews for prior audit recommendations.

Environmental Determination:

Not Applicable

Business Goal:

The Water Use Efficiency Programs Audit - Follow Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations 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 - Water Use Efficiency Programs Audit - Follow Up Review
Attachment 2 - PowerPoint

DATE: July 14, 2022

TO: Shivaji Deshmukh
             General Manager

FROM: Teresa V. Velarde
             Manager of Internal Audit

SUBJECT: **Water Use Efficiency Programs Audit – Follow Up Review**

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Department (IA) performed a follow up review of the six audit recommendations provided in the Water Use Efficiency (WUE) Programs Audit report, dated June 5, 2017. The follow up review was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2022/23 Annual Audit Plan and the IAD's Charter.

Audit Objective

The purpose of the follow up review is to provide a status of the six audit recommendations provided in the original WUE Programs Audit report. The objectives of the original audit were to evaluate internal controls over administrative tasks performed by staff as required by the executed contracts, Agency Ordinances, policies, and procedures. Additionally, to assess how staff implemented and administered WUE Programs, to identify opportunities to improve internal controls and record-keeping, and to assess the accuracy and completeness of the annual information about WUE Programs presented to stakeholders.

Background

In June of 2017, IA issued the audit report, Water Use Efficiency Programs Audit and provided six recommendations related to the Annual Water Use Efficiency Programs Report (Annual WUE Programs Report). This report was prepared annually and listed the expected/potential water savings achieved through each program, and the funding amounts for WUE Programs implemented in the current and prior years. The audit noted that the Water Resources staff provide valuable services to the Agency in tracking water use efficiency information and reporting it in the Annual Water Use Efficiency Programs Report.

Water Smart - Thinking in Terms of Tomorrow

Steven J. Elie	Michael Camacho	Marco Tule	Jasmin A. Hall	Paul Hofer	Shivaji Deshmukh
President	*Vice President*	*Secretary/Treasurer*	*Director*	*Director*	*General Manager*

Based on the results of this follow up review, all six recommendations are now considered implemented. The report that follows provides the details of the results.

Additional Water Use Efficiency Staff's Response:
The current five-year business plan has been shifted to a two-year reporting cycle to align with the new regulatory framework and state standards. IEUA will launch its new WUE program model that includes two tracks to address Customer Agency needs: equity, transparency, and governance. The two tracks represent "Core" and "Flex" programming and are typically cost-effective while providing benefits to all Customer Agencies. The Core programs comprise 70% of the WUE budget, while the Flex Programs comprise 30%. Within the Flex budget, Customer Agencies may select and fund more beneficial projects for their local service areas.

Recommendation #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.).

Status: Implemented

Department's Response:

The Policy and Inter-Agency Relations Department and Water Use Efficiency staff have accomplished this recommendation in two ways. First, department staff continue have ongoing coordination with member agencies at its bi-monthly meetings where the purpose and goals of the program are discussed.

Additionally, the department has the responsibility of managing an agreement with DeGrave Communications, Inc., a consultant to provide new marketing strategies for the member agencies. The member agencies shared their specific goals and needs for DeGrave's services as they relate to marketing plans. Through equal collaboration of DeGrave, the member agencies and IEUA. DeGrave created a toolkit comprised of writable universal templates for the member agencies to use for social media posts, bill inserts and more. DeGrave also executed photoshoots to capture photo and video content for IEUA rebate devices and IEUA WUE programs. The member agencies would use this new content in their own unique marketing strategies. DeGrave's contract and services concluded on June 30, 2020.

In FY 2020/21, IEUA worked with the member agencies to rename some of the existing WUE programs and provide additional flyers with program and rebate information. IEUA will provide the new material as an added resource for the member agencies, however, implementation will be based on each member agency's outreach strategy.

Recommendation #2
Finance and Accounting (FAD) staff have already taken several practical measures to review and reduce the amounts included in Work in Process (WIP) to ensure only capital projects are capitalized. FAD may want to consider prioritizing additional efforts to ensure that prior period adjustments are eliminated, such as:

- ***Developing a cross-departmental team including representatives from Engineering, Operations and FAD to approve items in advance for capitalization in WIP.***
- ***Establishing an automated log, register or report to be reviewed regularly that tracks project codes, amounts and purpose for FAD review to ensure accurate accounting of projects.***
- ***Engaging an outside consultant, accounting firm or additional temporary resources to make a thorough examination of WIP to:***
    - ***Ensure only capital projects are included***
    - ***Recommend policies and procedures for establishing projects to ensure only capital projects are capitalized***
    - ***Develop written examples and guidelines of what constitutes a capital project and what constitutes an O & M project.***

Status: Implemented

The original WUE audit report noted that the Agency had made prior period adjustments on the Agency's financial statements because projects related to the WUE program were initially set up as capital projects, instead of correctly being set up as O&M (Operations & Maintenance) projects. Since the original review, the Finance Department indicated they have been vigilant about reviewing with greater detail all projects and will request additional information and justification from the departments to ensure projects are categorized correctly.

<u>Finance Department's Response</u>
The department indicated they have updated the new project set up form to ensure it incorporates more information to justify the classification of new projects as capital or non-capital projects. The new form applies to all new Agency projects, including WUE projects. Finance staff stated they are involved in the review of the new project set up form, and also meet with the different departments to evaluate the request and provide guidance to ensure proper classification of the projects. Finance staff also stated they have been reviewing project cost and types during the year-end process to identify possible reclassifications between capital and non-capital costs.

IA reviewed the three prior Agency Annual Comprehensive Financial Reports (ACFR) and noted there were no prior period adjustments related to the WUE program or other types. Based on the response provided by the Finance department that details the new process for establishing/reviewing projects and because no prior period adjustments were identified in the most recent Agency ACFR's, this recommendation is considered implemented.

Recommendation #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.

Status: Implemented

The audit noted that the Annual WUE Programs Report is an effective tool for providing a summary of all regional conservation efforts. The audit also noted that the preface to the Annual WUE Programs Report references goals and targets established in the five-year Business Plan for 2015-20, but the actual totals from the Business Plan were not carried forward and reflected in the 2016 Annual WUE Programs Report. Recommendation #3 suggested staff consider including the amounts for budgets and targets established in the five-year Business Plan and compare them to the actual totals. The original audit report also provided a suggested comparison chart of various activities as a suggestion to illustrate the Business Plan goals and actual results.

Staff addressed this recommendation in the FY 2019-20 and FY 2020-21 Annual WUE Programs Report, on page 13 of each of the respective reports. The WUE Business Plan Goals related to budget and projections of water savings were brought forward for comparable information. The corresponding section from the FY 2020-21 report is included here for reference. This recommendation is considered implemented.

FY 2020-21 Performance to WUE Business Plan Goals

Every five years, IEUA and its Customer Agencies develop a Regional Water Use Efficiency Business Plan. The Business Plan documents regional water use efficiency targets, goals and methodologies to achieve water savings, meet current statutes, and comply with evolving State regulations. The water savings goals are then incorporated into IEUA's Urban Water Management Plan (UWMP).

At the time of this report, the 2020-2025 WUE Business Plan was being updated and therefore final costs and savings goals were unavailable to benchmark. Instead, IEUA has utilized the water savings goals from its 2020 UWMP, projected costs from IEUA's annual WUE budget, and cost per acre-foot objectives from the 2015 WUE Business Plan. The IEUA reports used in the analysis can be found on www.ieua.org/read-our-reports.

Below is a snapshot of the annual WUE program performance:

117%
increase in actual activity compared to UWMP projections

Measures	UWMP Projections (Units)	FY 2020-21 Actual Activity (Units)	Difference (Units)		
SCWS Device Rebates	5,450	5,126	-324	IEUA Annual Budget	$1,600,000
Sprinkler Tune-Ups	450	1,153	703	IEUA Actual Costs	$1,520,613
SCWS Turf Replacement	450,000	525,242	75,242	Difference in Spending Projected vs. Actual Costs	-$79,387
Landscape Audit & Evaluations	100	16	-84	Projected Annual Water Savings From UWMP	691
Smart Controller Upgrades	250	724	474	Actual Annual Water Savings in FY 2020/21	546
Large Landscape Retrofits	200	250	50	Difference in savings	-145
Pressure Regulation	50	325	275		

IEUA RWUE Annual Report | Key Accomplishments

13

Recommendation #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.

Status: Implemented

The original audit noted that the Annual WUE Programs Report is a hybrid of information from a variety of sources, documents, and calculations. The recommendation suggested that the information mentioned be credited, cited, referenced, or provided as supporting information to provide clarity and as additional sources of information. Providing additional descriptions and documentation about the sources of the information and how calculations were made, increases transparency, and helps users of the report have context about the information being reported, additionally, it provides credit and additional sources of information. The report had a couple of suggestions for consideration: to

apply any method or provide notes or documentation that describe the sources of the information and calculation methods used; and also suggested to consider expanding the "Highlights" commentary at the beginning of the report to describe the sources of the information and the methods used to calculate the water savings and funding amounts.

A review of the most current FY 2020-21 WUE Annual Report noted that the report now includes small notes at the bottom of some of the pages/graphs indicated with an asterisk, containing additional information regarding referenced material. Examples of these notes and footnotes.

Examples of reference notes:

Details on program funding, activity, and water savings for each Customer Agency can be found as an appendix item to the report.

*All Customer Agency Program data was obtained through a combination of IEUA program vendor invoices and socalwatersmart.com activity.

*All program data was obtained through vendor invoicing

*All Large Landscape Program data was obtained through IEUA Program vendor invoicing.

*All program data was obtained through customer agency reporting

*All IEUA Education and Outreach data was obtained through IEUA Program vendor invoicing and IEUA External Affairs Department reporting.

Calculations have the following reference:

$$^{(1)} \text{Payback period} = \frac{\text{Total IEUA direct program costs}}{\text{AF saved/year} \times \text{MWD Tier II rate/AF}}$$

It should be noted that the footnote at the bottom of the page contains an asterisk or a number and the source of information, but the asterisk or footnote number does not appear in the core information, so it may be difficult to reference the information that the asterisk applies to. The department addressed the observation related to crediting, citing and referencing the information to provide as additional support for the report. The referencing could be improved by specifying the information and the citations to ensure their footnotes and the asterisk reference both the source cited and the information in the report to demonstrate a tracing of information.

This recommendation is considered implemented because the report contains additional referencing support and information which had not been included in the original FY 2015 and FY 2016 reports reviewed by IA during the original audit.

Recommendation #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.

Status: Implemented

The original audit found that the order and format of the report could be improved to present the information in a more streamlined order. The report stated that the first two sections of the Annual Report provide a cover letter from IEUA's General Manager and a "Highlights" document. The Highlights document provided some descriptive and some statistical information, but the headings and descriptions were not aligned with the order of the Summary Charts that follow, and some of the most significant programs are not mentioned, while other programs that have only recently been initiated are described in greater detail. The purpose of IA's recommendation was for staff to evaluate closely and consider further organizing the information related to the programs in a more consistent and systematic manner to allow readers to easily follow through the report and be able to read the narrative information and refer to the related charts with numbers and totals.

Staff stated that the report's format was redesigned from FY 2018-19 to 2019-20 and the order between the highlights and summary charts will be synchronized in the FY 2020-21 Annual WUE Programs Report. IA reviewed the FY 2020-21 Report and noted that the information is organized very differently than the 2016 report originally reviewed. The information in the most recent report includes subheadings to preface the information that will be presented, and it is organized in different categories, including costs, activities, and the specific programs with charts, graphs, totals, photographs and detailed information about the programs described.

This recommendation is considered implemented because staff have updated the report to see that the information is organized to allow readers to follow all information provided.

Recommendation #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.

Status: Implemented

The original audit found that WR staff had a "desk procedure" or a document page of notes and contacts and a checklist to guide the preparation of the Annual WUE Programs Report. The Excel workbook that is the basis of the Report also inherently provides some documentation of the formulas and sources of amounts that are shown. However, there are also instances where amounts (particularly in the amount of turf removed and the dollar amounts of most funding sources) have been added to the report manually. The original audit report also noted that the various sources of information and methods of calculation can result in inconsistencies and inaccuracies within a schedule and from year to year, particularly when new programs begin or older programs are phased out. IA recommended implementing a comprehensive, documented procedure for the development of the Annual WUE Programs report and to help improve its consistency and accuracy and to reduce the amount of staff time needed to complete it.

The department finalized and implemented a documented Standard Operating Procedure (SOP). The "Annual Water Use Efficiency Programs Report SOP" provides detailed procedures and information about the information to compile the WUE report. The SOP has been finalized, signed and shared with staff. IA was able to review and provide comments to the SOP prior to its finalization. This recommendation is considered implemented.

Acknowledgements
IA would like to extend our appreciation to the Policy and Inter-Agency Relations Department and Water Use Efficiency staff and the Finance Department for their cooperation and assistance during this review.

Discussions with Management
IA met with the respective department managers and staff to discuss the status of each recommendation. Where possible, their comments have been incorporated.

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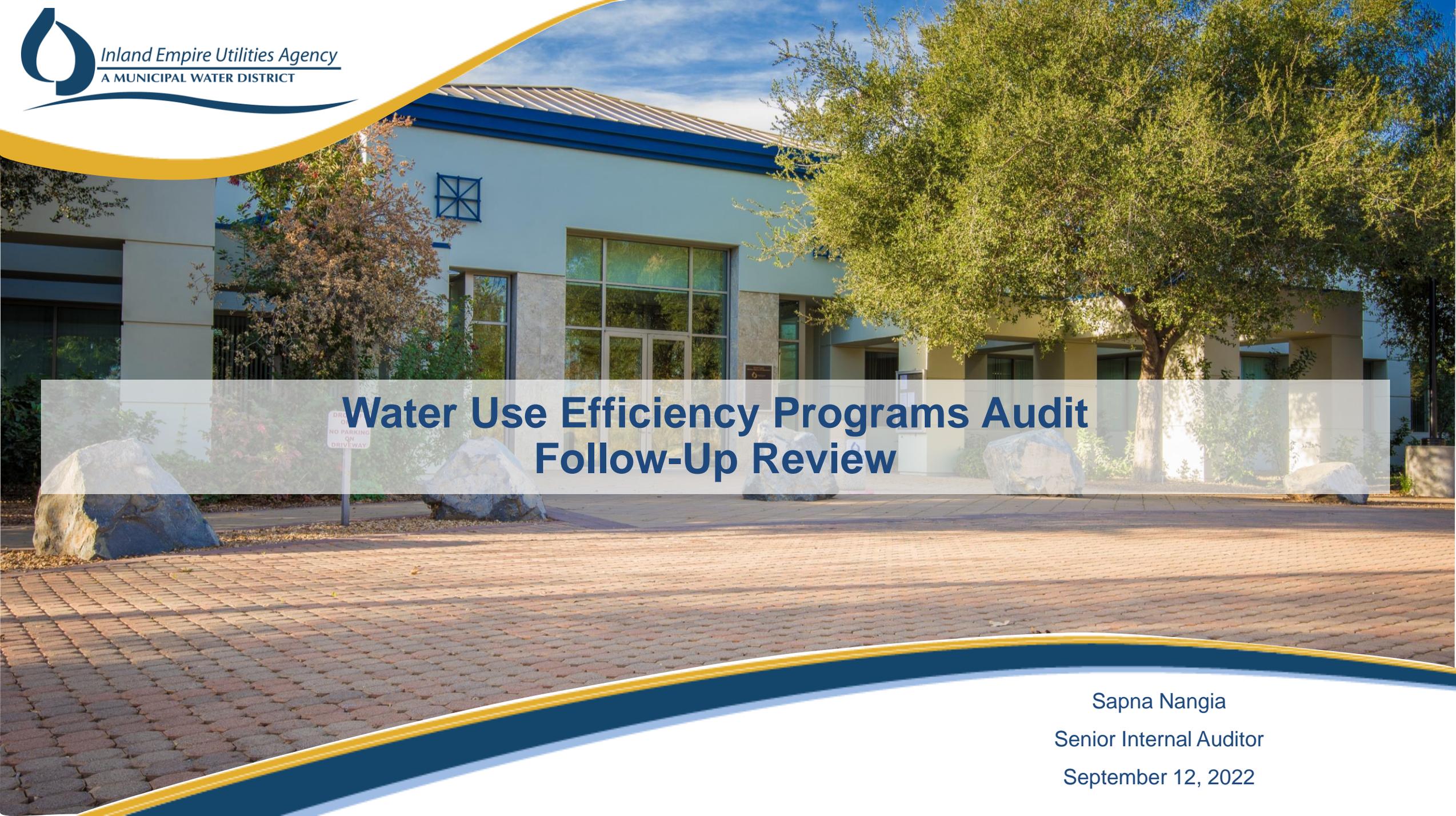
**Water Use Efficiency Programs Audit
Follow-Up Review**

Sapna Nangia

Senior Internal Auditor

September 12, 2022

Water Use Efficiency Programs Audit Follow-Up Review

- Original review was completed In June of 2017

- The objectives of the original audit were to:
  — evaluate internal controls
  — assess how staff implemented and administered WUE Programs
  — identify opportunities to improve internal controls and record-keeping
  — assess the accuracy and completeness of the information about WUE Programs in the annual report

- 6 original recommendations

Water Use Efficiency Programs Audit Follow-Up Review

[Water Use Efficiency Reports | IEUA](https://www.ieua.org/read-our-reports/water-use-efficiency-reports/)
https://www.ieua.org/read-our-reports/water-use-efficiency-reports/

Water Use Efficiency Programs Audit Follow-Up Review

- Annual Water Use Efficiency Programs Report (Annual WUE Programs Report)
  - A report prepared annually to document the potential water savings achieved through each of the conservation programs and the funding amounts for each

- Internal Audit provided 5 recommendations for Water Conservation staff and 1 for Accounting
  - Recommendations relate to improving how the information is reported to ensure it can be compared from year to year
  - Recommendation for Accounting related to ensuring only capital projects are capitalized to minimize or eliminate the need for prior period adjustments

- All 6 recommendations are now considered implemented.

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

Questions?

INFORMATION
ITEM
2F

Date: September 21, 2022

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

09/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for September 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 comprehensive evaluation of the procure to pay processes for the Home Depot Credit Cards and continued on the evaluation of the procure to pay processes for Materials and Supplies. Additionally, IA completed the progress update and followed up on the status of 28 outstanding recommendations resulting from the prior procure to pay audits. Additionally, IA completed a follow-up review of the Water Use Efficiency Programs Audit and an analysis of the Warehouse's physical inventory practices.

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 15, 2022 the Board of Directors approved the Fiscal Year 2022/23 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 September 2022

Projects Completed This Period

Project: **Accounts Payable Operational and Internal Control Audit:**
                 Review of Procure to Pay Processes for Home Depot Credit Cards

Scope:
The audit scope of the Review of Procure to Pay (P2P) Processes for Home Depot Credit Cards is to evaluate the ordering, receiving, and payments, to identify problems, bottlenecks, and constraints in the various steps to process the Home Depot invoices and payments timely, and to propose recommendations to make the process more efficient. Specifically, to evaluate the processes for invoice receiving and processing, the use of the credit card program, internal controls, timeliness of payments and provide recommendations to improve efficiencies.

Status: **Completed**

As of June 30, 2022, there were a total of 33 Home Depot credit cards assigned to both IEUA and IERCA staff, and the total combined amount paid (both IEUA and IERCA) for Fiscal Year (FY) 2021 was $60,769 and FY 2022 was $50,490 to Home Depot. To complete this P2P review, IA met with various representatives of the different departments, including, Contracts and Procurement (CAP), Operations, Maintenance, and Warehouse, and Accounting. IA identified inefficiencies with the administration of this program. The use of the Home Depot credit cards is not an efficient program because the Agency is often placed on credit hold due to late payments, and users are not able to make purchases. The audit report provides a comprehensive evaluation of the program as of August 2022. The program is possibly changing as the Agency is working to implement a 2018 audit recommendation.

In 2018, IA recommended Home Depot credit cards be eliminated and absorbed by the Procurement Card (Pcard) program. The audit evaluated the benefits of the Pcard program, including, enhance visibility of the items purchased, review reports, and most importantly, to ensure the cards are never placed on credit hold.

IA is providing recommendations to improve the current Home Depot credit card program if the Agency decides to keep all or part of the credit cards. The complete audit report with details of the observations and recommendations is presented as a separate item.

Project: **Accounts Payable Operational and Internal Control Audit:**
                 Quarterly Progress Update for all P2P Audit Recommendations – 3rd Progress Update

Scope:
The purpose of the Progress Update for all P2P Audit Recommendations is to provide an update on the implementation status of the 67 audit recommendations provided through the P2P Audits:

- Review of Procure to Pay Processes for Chemicals:
    o Dated November 24, 2021
    o Provided 35 audit recommendations
- Review of Procure to Pay Processes – Engineering & Construction Management
    o Dated February 24, 2022
    o Provided 21 audit recommendations
- Review of Procure to Pay Processes - Planning and Resources
    o Dated May 25, 2022
    o Provided 11 audit recommendations

Status: **Completed Quarterly Report & Ongoing**
This is the status of all P2P recommendations, as of August 25, 2022.

	Implemented	In Progress	Not Implemented	No Longer Applicable	Total Original Audit Recommendations	
Operations Unit	12	0	0	4	16	100% Implemented All 16 recommendations have been addressed.
Engineering & Construction Management	2	4	0	1	7	
Planning	4	0	0	2	6	100% Implemented All 6 recommendations have been addressed.
Contracts and Procurement	7	1	0	1	9	Only one recommendation requires attention - re Agency Policy A-51 procurements.
Accounting	4	16	0	9	29	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Total Recommendations	29	21	0	17	67	43% Implemented 31% In Progress 25% No Longer Applicable
Percentages	43%	31%	0%	25%		

Of the 67 audit recommendations provided through the three P2P audits, 21 require attention. The departments that proposed action plans for all the outstanding recommendations are included in a separate report and attachments are under a separate cover. IA will continue to provide quarterly progress reports until all audit recommendations have been addressed.

Project: **Water Use Efficiency (WUE) Audit Follow-up Review**

Scope:
IA completed a follow-up review to provide a status of the six audit recommendations provided in the original WUE Programs Audit report. The objectives of the original audit were to evaluate internal controls over administrative tasks performed by staff as required by the executed contracts, Agency Ordinances, policies and procedures. Additionally, to assess the corrective actions taken to improve the completeness of the annual information about WUE programs.

Status: **COMPLETE**
The follow-up review noted that all six of the original audit recommendations are now implemented. The audit report is included under a separate cover and provides details of the audit observations and recommendations.

Project: **Warehouse Inventory & Cycle Counts**

Scope:
IA participated in the observation of the monthly cycle count conducted by the Warehouse in June 2022. The purpose of IAs observation of the monthly cycle count was to observe the count as part of the annual financial audit process, and to coordinate audit efforts with the Agency's external financial audit firm, CliftonLarsonAllen LLP (CLA), and to be available as an audit resource on behalf of the Agency. Additionally, the purpose was to perform an independent spot check to verify the monthly cycle count.

Status: **COMPLETE**
IA confirmed with the Warehouse staff that the established practice for conducting inventory for the Agency's warehouse will be as follows: bi-annual physical inventory of all inventory items on the odd number years. In addition to the bi-annual physical inventory, the Warehouse staff will conduct cycle counts of 50 items every month, every year.

The complete methodology is documented in the attached report presented under a separate cover.

Project: **Accounts Payable Operational and Internal Control Audit Report -
Review of Procure to Pay Processes for Materials and Supplies (M&S)**

Scope:
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. Specifically, the objectives include evaluating internal controls, reviewing compliance with policies and procedures, identifying operating efficiencies and areas for improvement, evaluating the proper use of procurement instruments, and analyzing the invoice payment processes to ensure vendors are paid timely to minimize or eliminate credit holds placed by vendors.

Status: **In Progress**
The audit is ongoing and planned for completion: December 2022.

During this quarter, IA completed the following:
- Updated the scope of the M&S audit to focus on data from FY 2021-2022 in lieu of the older data used in the Interim Report from FY 2020-2021 and prior.
- Reached out to departments to procure a current and much more comprehensive list of M&S vendors and gathered more information about these vendors.
- Identified eighty-six (86) M&S vendors from FY 2021-2022 (the 86 M&S vendors did not include chemical vendors that were already covered in the P2P Processes for Chemicals Review). The transactions from these vendors will be used for the sample selection process.
- Calculated the total dollar amount of procured M&S from FY 2021-2022 based on the 86 vendors to be $3,415,956 (based on data as of July 14, 2022). In comparison, the Interim Report considered 9 M&S vendors and calculated the total dollar amount of procured M&S from FY 2020-2021 to be $559,534 based on these vendors.
- Facilitated interviews with staff from Contracts and Procurement, Operations, Facilities and Water System Programs, Maintenance, Warehouse, and Accounting to produce current, more accurate, more comprehensive, more detailed, and streamlined flowcharts and lists of process steps for all divisions involved in the procurement and payment for M&S.
- Updated the total number of potential procurement methods for acquiring M&S from 5 up to 8 in the flowchart/process steps.
- Developed an improved list of attributes for testing and began the sample selection process.
- Identified potential observations for improvement to be included in the final audit report.

Additional audit procedures to be performed include:
- Completing testing to identify and evaluate the root cause for delays in procurement and/or payment.
- Evaluating the need for a survey of vendors that have placed the Agency on credit hold.
- Analyzing the updated data set to gather useful metrics, statistics, and tables.
- Utilizing the testing results and updated process steps to develop a comprehensive list of observations, recommendations, and impacts.
- Using the findings, recommendations, and impacts to produce the completed Procure to Pay Processes for Materials and Supplies Final Audit Report that will be used to increase the timeliness of procurement and payment for M&S.

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, more robust and larger scale analysis of transactions; sustainability; efficiencies; report production; dashboards; continuous monitoring; storage; workpaper documentation and review administration.

Status: **In Progress**
To date, IA has met with the three 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 meeting with the Agency's Information Technology (IT) and CAP departments to discuss requirements before moving forward. 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 advanced time and notice.

Project: **On-going Committees/Teams**

Scope:
IA participates in meetings related to the Agency's Asset Management Steering Committee program and the Safety programs to gain an understanding of the Agency's priorities, comprehend 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 with the Asset Management Steering Committee and 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 assist 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. IA is also very engaged in regards to prior audit recommendations provided. These meetings require approximately one hour each per month and sometimes more. They 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, prevent the spread of COVID-19, transition employees to work from home, ensure proper on-site precautions and protect Agency personnel and the public. The objectives of the review were to evaluate if the expenses follow proper internal controls, contain the required supporting documentation, and meet compliance requirements according to Agency policies and procedures

Status: **In Progress**
IA will contact the Grants Unit to evaluate any updates. This coordination/report will be scheduled through the Annual Audit Plan as required.

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: **To be planned after all P2P Reviews**
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 September 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 ensure that risks have been addressed and clears a 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 September 2022, there are 88 outstanding audit recommendations. Details about each of the outstanding recommendations are 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 and 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) • Engineering & Construction Management (February 24, 2022), and • Planning & Resources (May 26, 2022) *(Open recommendations as of August 25, 2022)*	See column called Area Audited	21
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		**119**

*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 September 2022, 119 recommendations remain outstanding:
- 21 relate to the Procure to Pay audits completed; these are currently followed up on quarterly
- 31 relate to the renegotiation of the Regional Contract
- 20 relate to required Agency policy updates; HR is working with a consultant to evaluate
- **47 recommendations are eligible for follow-up evaluation**

Special Projects

<u>Ongoing</u>

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

<u>Ongoing</u>

IA assists Agency Management with analysis requests, evaluations, and information verification; assists with the interpretation of policies and procedures; and/or provides 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 was asked to assist as an external panelist for interviews for an outside governmental agency. The process included time to review resumes and document details of the interviews, as well as, meet with HR and the evaluators.

Audit News & Trends

IA provides the following list of ranked risk themes borrowed from Protiviti:
The Top Risks for 2022: A Global Perspective (protiviti.com)

TOP 10 GLOBAL RISKS FOR 2022

1. Impact of government public health policies and protocols on the business

2. Succession challenges and inability to attract and retain top talent may limit operations

3. Pandemic-influenced market conditions may affect customer demand and relationships

4. Adopted digital technologies may require significant, frequent efforts to upskill/reskill employees

5. Economic conditions may significantly restrict the organization's growth opportunities

6. Anticipated increases in labor costs may affect ability to meet profitability targets

7. Resistance to change may restrict ability to pivot and adapt

8. Inability to utilize sufficiently advanced data analytics to achieve market intelligence

9. Inability to manage cyber threats that can significantly disrupt operations

10. Shifts in perspectives and expectations about diversity, equity and inclusion

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 attain, a minimum of 40 continuing professional education credits every 2 years. During the past quarter, IA staff have 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 virtual trainings, most of which have been complimentary.

All training hours met the requirements for 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, the Manager of IA attended an online webinar on Data Analytics and Fraud Detection in August 2022.

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
- 1 Full-time Senior Internal Auditor
- 1 Senior Internal Auditor (currently assigned through a temp agency)

Future Audit Committee Meetings

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