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

MONDAY, DECEMBER 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. 2022-11-7, ADOPTED BY THE IEUA BOARD OF DIRECTORS ON NOVEMBER 16, 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 ITEMS

A. MINUTES

Approve Minutes of the September 12, 2022 Audit Committee meeting.

B. IEUA FISCAL YEAR (FY) 2021/22 AUDITED ANNUAL COMPREHENSIVE FINANCIAL REPORT

Staff recommends that the Committee/Board:

1. Approve the Annual Comprehensive Financial Report for fiscal year ended June 30, 2022;

2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;

3. Approve an interfund loan of $7,000,000 from Recycled Water Fund to the Recharge Water Fund to support the Recharge Master Plan Update projects execution until grants and State Revolving Fund loan proceeds from the State Water Resources Control Board are received by the Agency; and

4. Authorize the General Manager to execute the inter-fund loan.

C. INTERNAL AUDIT UNIT CHARTER AND AUDIT COMMITTEE CHARTER

Staff recommends that the Committee/Board:

1. Approve the Audit Committee Charter and the Internal Audit Unit Charter; and

2. Direct staff to implement the charters.

2. INFORMATION ITEMS

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

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

C. CONTRACTS AND PROCUREMENT FOLLOW-UP REVIEW (WRITTEN/POWERPOINT)

D. INTERNAL AUDIT UNIT QUARTERLY STATUS REPORT FOR DECEMBER 2022 (WRITTEN)

3. AUDIT COMMITTEE ADVISOR COMMENTS

4. COMMITTEE MEMBER COMMENTS

5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

ADJOURN

DECLARATION OF POSTING

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, SEPTEMBER 12, 2022
9:00 A.M.

COMMITTEE MEMBERS PRESENT via Video/Teleconference

Paul Hofer, Chair
Steven J. Elie, Director

STAFF PRESENT

Brandon Gonzalez, Technology Specialist I
Jeanina Romero, Executive Assistant
Nolan King, Manager of Information Technology
Laura Mantilla, Executive Assistant
Teresa Velarde, Manager of Internal Audit

STAFF PRESENT via Video/Teleconference

Christiana Daisy, P.E., Deputy General Manager
Kristine Day, Assistant General Manager
Jerry Burke, Director of Engineering
Javier Chagoyen-Lazaro, Director of Finance
Deborah Berry, Controller
Lisa Dye, Director of Human Resources
Chris Garcia, Environmental Resources Planner I
Denise Garzaro, Board Secretary/Office Manager
Don Hamlett, Director of Information Technology
Jennifer Hy-Luk, Acting Executive Assistant
Randy Lee, Director of Operations & Maintenance
Lisa Morgan-Perales, Senior Water Resources Analyst
Sapna Nangia, Senior Internal Auditor
Cathleen Pieroni, Senior Policy Advisor
Wilson To, Technology Specialist II

OTHERS PRESENT via Video/Teleconference

Travis Hickey, Audit Committee Advisor

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

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

DRAFT

1A – 1B. ACTION ITEMS
The Committee:

- Approved the minutes of the June 6, 2022 Audit Committee meeting.

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

- Accounts Payable Operational and Internal Control Audit Report – Review of Procure to Pay Processes for Home Depot Credit Cards
- Status Update – Review of Procure to Pay Processes for Materials and Supplies
- Progress Update for all Procure to Pay Audit Recommendations
- Warehouse Annual Physical Inventory and Monthly Cycle Counts
- Water Use Efficiency Programs Audit – Follow-up Review
- Internal Audit Department Quarterly Status Report for September 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 9:56 a.m.

Respectfully submitted,

Jeanina Romero
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 12, 2022

DRAFT

ACTION ITEM

1B

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

SSD

To: The Honorable Board of Directors **From:** Shivaji Deshmukh, General Manager

Committee: Audit *12/12/22*

Finance & Administration *12/14/22*

Staff Contact: Kristine Day, Assistant General Manager

Subject: IEUA Fiscal Year (FY) 2021/22 Audited Annual Comprehensive Financial Report

Executive Summary:

The Annual Comprehensive Financial Report (ACFR, formerly referred to as the "CAFR") for fiscal year ended June 30, 2022, was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by Clifton Larson Allen LLP (CLA). Based on their audit and testwork results, CLA found the financial statements present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information as of June 30, 2022, and the respective changes in financial position, and cash flows thereof in accordance with accounting principles generally accepted in the United States (U.S. GAAP). As such, CLA issued an unmodified (clean) opinion.

Staff's Recommendation:

1. Approve the Annual Comprehensive Financial Report for fiscal year ended June 30, 2022;
2. Direct staff to distribute the report as appropriate to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;
3. Approve an inter-fund loan of $7,000,000 from Recycled Water Fund to the Recharge Water Fund to support the Recharge Master Plan Update projects execution until grants and State Revolving Fund loan proceeds from the State Water Resources Control Board are received by the Agency, and
4. Authorize the General Manager to execute the inter-fund loan.

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

Account/Project Name:
Not Applicable

Fiscal Impact (explain if not budgeted):
There is no impact on the Agency's FY 2022/23 Budget as a result of this item, since related audit service fees are budgeted in the Administrative Services Fund under Professional Services.

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

Prior Board Action:

On December 8, 2021, the Board of Directors approved the Comprehensive Annual Financial Report for FY 2020/21 reviewed by the Audit Committee on December 6, 2021.
On June 11, 2021, the Board approved Contract No. 4600003005 with Clifton Larson Allen LLP for financial auditing and single audit services, for three fiscal years beginning in FY 2020/21, with the option to extend two additional fiscal years.

Environmental Determination:

Not Applicable

Business Goal:

The IEUA FY 2021/22 Annual Comprehensive Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the fiscal year activity and the net position of the different programs of the Agency.

Attachments:

Attachment 1 - Background
Exhibit A - FY 2021/22 Audited Annual Comprehensive Financial Report (in Substantive Completed Form)
Attachment 2 - PowerPoint
Attachment 3 - CLA Financial Audit Results Presentation *Not available at time of printing*
Attachment 4 - Promissory Note for Inter-Fund Loan between the Recycled Water Fund and the Recharge Water Fund.

Background

Subject: IEUA Fiscal Year (FY) 2021/22 Audited Annual Comprehensive Financial Report (ACFR)

FY 2021/22 Annual Comprehensive Financial Report

The Agency's Annual Comprehensive Financial Report (ACFR) for fiscal year ended June 30, 2022, was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various Agency funds and account groups. Disclosures are included within the ACFR to enable the reader to gain an understanding of the Agency's financial activities. Exhibit A is a copy of the Agency ACFR in substantially final form.

FY 2021/22 Financial Highlights

Combined revenues and other funding sources for the fiscal year totaled $289,712,548, a decrease of $6,904,452 compared to the prior fiscal year. The following table presents a comparison of revenues and other funding sources by category for fiscal years 2020/21 and 2021/22.

Combined Revenues and Other Funding Sources by Category - All Funds

For the Fiscal Year Ended June 30, 2022

(With Comparative Totals for the Fiscal Year Ended June 30, 2021)

Revenue & Other Funding Sources	2021/22		2020/21		Increase/(Decrease) from 2020/21	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	$ 97,825,094	34%	$ 91,325,416	31%	$ 6,499,678	7%
Water Sales	42,976,372	15%	45,561,349	15%	(2,584,977)	(6)%
Recycled Water Sales	19,642,939	7%	18,094,729	6%	1,548,210	9%
Interest Income	2,152,502	1%	3,011,265	1%	(858,763)	(29)%
Property Tax Receipts	71,584,856	25%	67,134,938	23%	4,449,918	7%
Water Connection Fees	8,749,472	3%	5,699,920	2%	3,049,552	54%
Wastewater Capital Connection Fees	35,216,803	12%	36,732,365	12%	(1,515,562)	(4)%
Other Non-operating Revenues	(774,161)	(0)%	6,390,462	2%	(7,164,623)	(112)%
Capital Grants	12,338,671	4%	22,666,556	8%	(10,327,885)	(46)%
Total Revenues & Contributions	**$ 289,712,548**	**100%**	**$ 296,617,000**	**100%**	**$ (6,904,452)**	**(2)%**

Service Charges

Increase is primarily due to new adopted rates by the Agency Board of Directors for FY 2021/22, and an increase in the number of EDU units reported by contracting agencies.

Water Sales

Decrease is primarily due to lower deliveries from Metropolitan Water District of Southern California due to current drought conditions. Deliveries for FY 2021/22 were 66,187 acre-feet (AF) compared to 71,347 AF in FY 2020/21, a decrease of 5,160 AF.

Property Tax Receipts

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

Wastewater and Water Connection Fees

Wastewater connection fees were lower than the prior fiscal year. Wastewater connections fees were $35.2 million in FY 2021/22, with 4,767 new units compared to 5,281 units and $36.7 million in the prior fiscal year. The lower number of new connections is primarily due to a decrease in new connections reported by contracting agencies in FY 2021/22 as compared to prior year. Water connection fees were higher than the prior fiscal year. Water connection fees were $8.7 million in FY 2021/22 compared to $5.7 million in FY 2020/21, with 4,896 new units reported in FY 2021/22 compared with 3,385 units reported the prior fiscal year.

Other Non-Operating Revenues

Decrease is due to a reduction in reimbursements from capital project expenditures and unrealized impact on long-term investments.

Capital Grants

Decrease is due to the reduction Federal Principal Forgiveness grant (PFG) as well as grant receipts for the South Archibald Trichloroethylene (TCE) Plume Cleanup Project, partially offset with the grant from the California Water Commission, and principal forgiveness for the Recharge Master Plan Update for the State Water Resources Control Board.

Combined expenses for fiscal year ended June 30, 2022, totaled $186,730,051, a decrease of $7,200,305, compared to the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2021/22 and 2020/21.

Combined Expenses by Category - All Funds
For the Fiscal Year Ended June 30, 2022
(With Comparative Totals for the Fiscal Year Ended June 30, 2021)

Expense Category	2021/22		2020/21		Increase/(Decrease) from 2020/21	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Water Purchases	$ 42,937,372	23%	$ 45,561,349	23%	$ (2,623,977)	(6)%
Wastewater Collection	10,294,319	5%	8,965,048	4%	1,329,271	15%
Wastewater Treatment	24,877,528	13%	22,548,656	12%	2,328,872	10%
Wastewater Disposal	12,145,857	7%	10,778,250	6%	1,367,607	13%
Operations and Maintenance	7,989,274	4%	5,974,752	3%	2,014,522	34%
Administration and General	39,369,646	21%	44,066,872	23%	(4,697,226)	(11)%
Depreciation and Amortization	35,090,949	19%	36,819,224	19%	(1,728,275)	(5)%
Interest on Long-Term Debt	14,048,286	8%	13,883,835	7%	164,451	1%
Other Non-Operating Expenses	(23,180)	0%	5,332,370	3%	(5,355,550)	(100)%
Total Expenses	**$ 186,730,051**	**100%**	**$ 193,930,356**	**100%**	**$ (7,200,305)**	**(3.7)%**

The Agency's statement of net position for fiscal year (FY) ended June 30, 2022, reflects $978 million, an increase of $103 million compared to the prior fiscal year.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2021/22 were 66,187-acre feet (AF) compared to 71,347 AF reported in FY 2020/21, a decrease of 5,160 AF. The decrease is mainly due to lower deliveries from Metropolitan Water District of Southern California due to current drought conditions.

Funding of Employee Retirement Liabilities

Consistent with the Board policy, the Agency makes contributions to fund the pension unfunded liabilities and other post-employment benefits (OPEB). Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of $36 million for pension and $15.0 million for OPEB have been made through fiscal year ended June 30, 2022.

As of June 30, 2022, based on the most recent actuarial valuation date, the OPEB plan is 100 percent funded with an actuarial accrued asset of $4,965,608.

The net pension liability measured as of June 30, 2022, using valuation date of June 30, 2021, was 98 percent funded at $4.6 million, in accordance with GASB 68. As of June 30, 2022, the Agency had no outstanding contributions to the pension plan required for the year ended June 30, 2022.

Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) for FY 2020/21 were 148 projects compared to 96 projects in FY 2020/21, an increase of 52 projects. WIP total cost increased to $339.8 million from $197.6 million mainly due to the construction of the RP-5 expansion.

Inter-Fund Transfers

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

In FY 2021/22, inter-fund transfers of $19.3 million were made to support debt service requirements, the Agency's pro-rata share of groundwater recharge O&M costs, and the allocation of water and wastewater connection fees to support capital project costs based upon information defined in 2015 rate and fee studies. The following tables summarize the Transfers In (Table 1) and Transfer Out (Table 2) by type and between Major and Non-Major funds.

Table 1. FY 2021/22 Transfers In

Transfer In								
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service		261,604	2,534,530	-	-	479,000	-	3,275,134
Total Capital Contribution	6,540,238	4,373,562	-	486,032	2,162,663	146,226	1,074,864	14,783,585
Operations Support	-	-	-	-	568,711	710,533	-	1,279,244
Total	6,540,238	4,635,166	2,534,530	486,032	2,731,374	1,335,759	1,074,864	19,337,963

Table 2. FY 2021/22 Transfers Out

Transfer Out								
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water	Water Resources	Admin Services	Groundwater Recharge	Non-Reclaimable Wastewater	
Debt Service	3,127,827	147,307	-	-	-	-	-	3,275,134
Total Capital Contribution	7,469,954	6,540,238	720,482	-	-	-	52,911	14,783,585
Operations Support	-	530,039	729,869	-	-	-	19,336	1,279,244
Total	10,597,781	7,217,584	1,450,351	-	-	-	72,247	19,337,963

Debt Service Inter-Fund Transfer $3.3 million

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

Capital Inter-Fund Transfer $14.8 million

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

Projects are assigned to the fund that will benefit from the investment. In some cases, where a project will benefit multiple funds, the project is assigned to a single fund to effectively track and monitor project budget and costs throughout its lifecycle. For these projects, actual expenditures are allocated amongst the funds based on their benefit share at the end of the fiscal year. In Fiscal Year 2021/22, inter-fund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the RP-5 Expansion project.

Additionally, capital projects that support common Agency-wide activities are recorded in the Administrative Services fund. For Fiscal year 2021/22 inter-fund transfers to the Administrative Service fund from the Wastewater Capital, Wastewater Operations, Recycled Water, and Non-Reclaimable Wastewater funds supported projects, including roofing improvements to the Agency main buildings, and enhancement to the Agency's computer infrastructure network and cybersecurity.

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

In Fiscal Year 2021/22 water connection fees initially recorded in the Recycled Water fund supported projects like the Water Bank, the Chino Basin Program review and analysis, and water planning initiatives recorded in the Water Resources fund, as well as a small portion of the Recharge Master Plan Update (RMPU) and Administrative Services fund project costs.

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

Operation Support Inter-Fund Transfer $1.3 million

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

Inter-Fund Loan

To support cash flow needs for the implementation of the Recharge Master Plan Updates projects, the Recharge Water Fund requires an inter-fund loan pending receipt of State Revolving Fund Loan proceeds from the State Water Resources Control Board. The Recycled Water Fund will lend the Recharge Water Fund an amount not to exceed $7 million, as of June 30, 2022, with interest at the annual average LAIF Rate for a period of one year following the execution of the promissory note. The Recharge Water fund has outstanding receivables in amount of $11.6 million related to State loans and grants related to the Recharge Master Plan Update projects and will repay the interfund loan as soon as the Agency receive those proceeds.

External Auditors' Independent Audit

The Agency's independent audit firm, Clifton Larson Allen LLP (CLA), performed the annual financial audit. CLA issued an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2022, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements. CLA found no material deficiency in internal controls over financial reporting.

Fiscal Year 2021/22 is the second audit completed by CLA in accordance with the contract approved by the Board of Directors on June 11, 2021, for three fiscal years beginning in FY 2020/21, including the option to extend the contract two fiscal years. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with the Office of Management and Budget (Single Audit).

Internal Audit Department Review

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

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

Government Financial Officers Association (GFOA) ACFR Award

For the past twenty-two years, the Agency has applied for and received the GFOA ACFR Award for excellence in financial reporting. The deadline to submit the FY 2021/22 ACFR is December 31, 2022.

The IEUA FY 2021/22 Annual Comprehensive Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity and the net position of the different

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2022

Deborah Berry

Controller

December 21, 2022

FY 2021/22 Financial Highlights

- **Increased total net position by $103 million:**
  - Operating activities: ($12) million
  - Non-operating activities: $103 million
  - Capital Grants: $12 million
- **Total net position as of 6/30/22 $978 million:**
  - Net investment in capital assets $434 million
  - Restricted assets $263 million
  - Designated / unrestricted assets $281 million
- **Interfund transfers $19.3 million**
  (Note 15 to Financial Statements):
  - Capital support $16 million
  - Debt service support $3 million
  - Operations and Maintenance support $1 million
- **Interfund loan of $7 million**
  - From the Recycling Water Fund to the Recharge Water Fund, to support RMPU cash flow, until SRF loans agreements are completed.

FY 2021/22 Revenues & Expenses

Total Revenues $289 Million

Operating revenue:	($ million)
• Water Sales	$43
• Service Charges	$97
• Recycled Water Sales	$20
Total Operating Revenue	**$160**

Non-Operating revenue:	($ million)
• Property Tax	$72
• Connection Fees	$44
• Capital Grants	$12
• Other nonoperating revenues	$1
• **Total Non-Operating Revenue**	**$129**

Total Expenses & Change in Net Position $289 Million

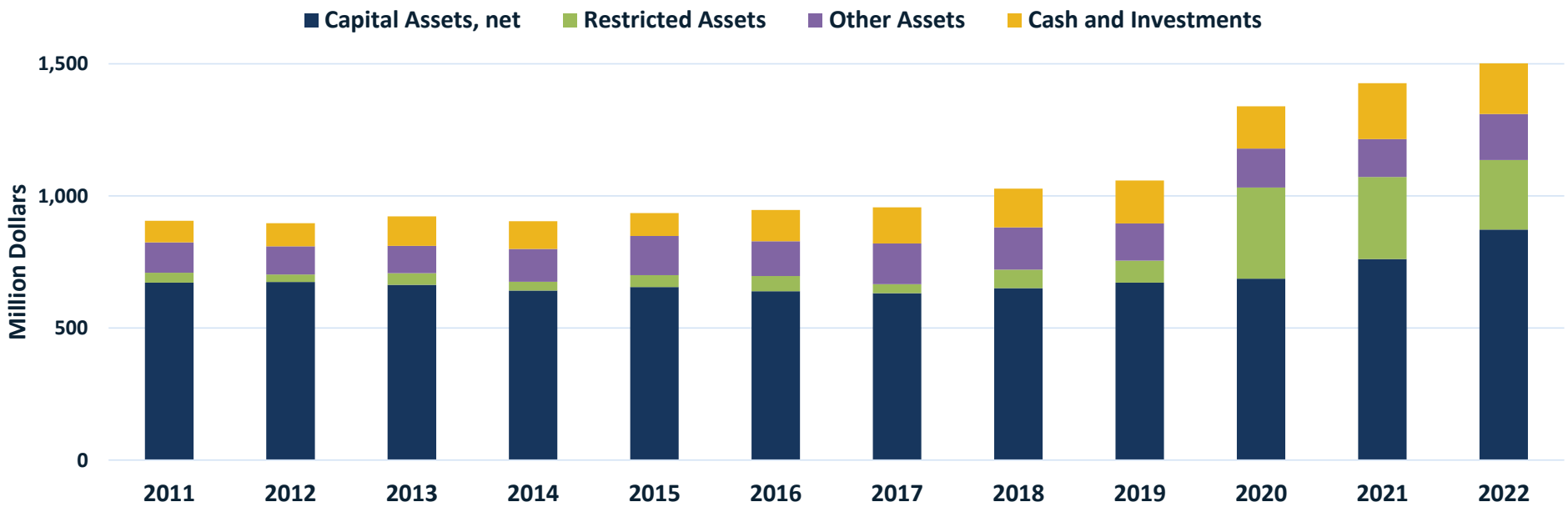
Operating expense:	($ million)
• Water Purchases	$43
• Wastewater Treatment	$47
• O&M and Support Services	$47
• Depreciation and Amortization	$35
Total Operating Expense	**$172**

Non-Operating Expense:	($ million)
• Interest on long term debt	$14
• Other nonoperating expenses	($.02)
Total Non-Operating Revenue	**$ 14**

	($ million)
Change in Net Position:	**$103**

Total Assets Increased $119 million from prior year

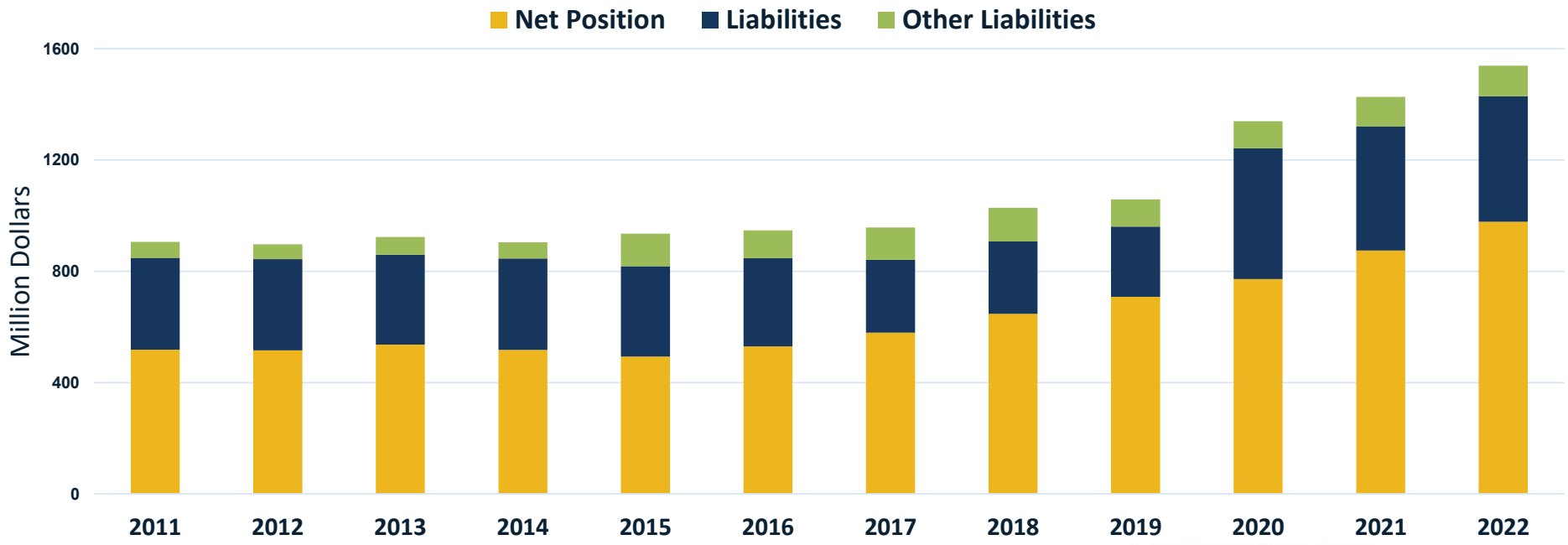
- Construction of new capital assets (RP-5 Expansion)



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

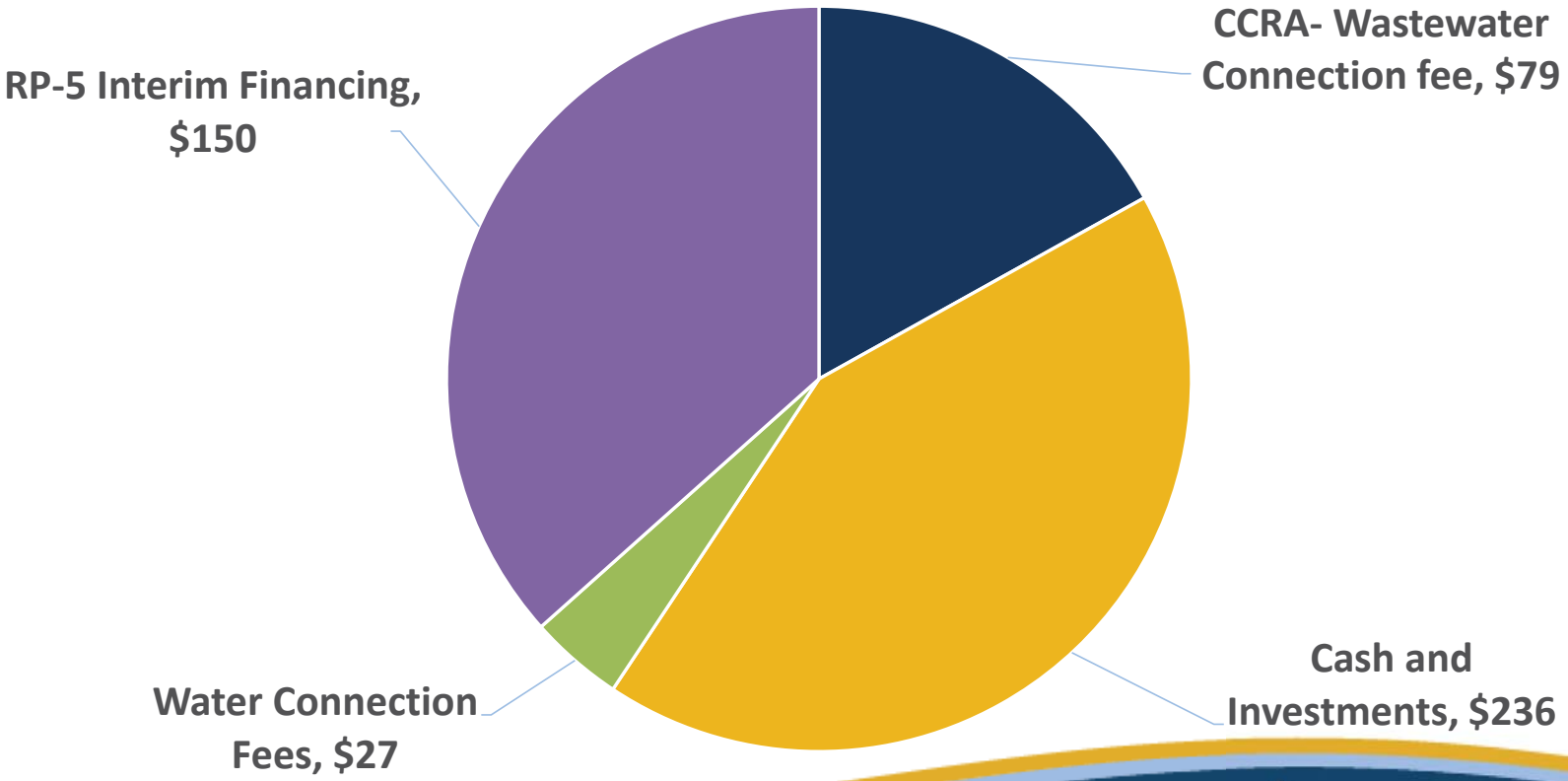
Total Liabilities and Net Position

- $1.8 M net decrease in Long Term Debt
- $103 M increase in Net Position



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

FY 2021/22 Cash, Investments, and Restricted Deposits $492 Million



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Recommendation

1. Approve the Annual Comprehensive Financial Report for fiscal year ended June 30, 2022;
2. Direct staff to distribute the report as appropriate to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties;
3. Approve an inter-fund loan of $7 million from the Recycled Water Fund to the Recharge Water Fund to support the Recharge Master Plan Update projects execution until grants and State Revolving Fund loan proceeds from the State Water Resources Control Board are received by the Agency; and
4. Authorize the General Manager to execute the inter-fund loan.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Questions?

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

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Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

Date: December 21, 2022

PROMISSORY NOTE

Promissory Note to the Recycled Water Fund (RW 10600) of the Inland Empire Utilities Agency (*"Lender"*), Chino, California.

For value received, the Recharge Water Fund (RW 10300) of the Inland Empire Utilities Agency (*"Borrower"*), having its offices at 6075 Kimball Avenue, Building A, Chino, California 91708, hereby promises to pay Lender, having its offices at 6075 Kimball Avenue, Building A, Chino, California 91708, the principal sum not-to-exceed amount of $7,000,000 with interest at the annual average LAIF Rate for a period of one year following the execution of this Note between Borrower and Lender as defined above. The obligations of Borrower are subject to the terms of this Note and the IEUA policy on inter-fund transfers and loans, adopted by the Board as Resolution 2001-12-01 on December 5, 2001 and incorporated by reference.

This inter-fund loan will support the implementation of the Recharge Master Plan Update projects that are included in the Recharge Water Fund (RW 10300) until the receipt of the State Revolving Fund loans from the State Water Resources Control Board.

1. The loan principal and interest repayment are open-ended, pending Board action to establish the funding source and a loan repayment schedule.

2. Interest on said funds shall accrue in annual installments on the outstanding principal beginning on the 1st day of January 2023 and continuing through the last day of the loan repayment schedule, on which day the entire balance of the unpaid principal with unpaid interest due thereon shall be due and payable.

3. Executed as of the day and date first above written.

INLAND EMPIRE UTILITIES AGENCY

DocuSigned by:

BY: Shivaji Deshmukh

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Shivaji Deshmukh
General Manager

ACTION ITEM

1C

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

12/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Unit Charter and Audit Committee Charter

Executive Summary:

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

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

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

Staff's Recommendation:

1. Approve the Audit Committee Charter and the Internal Audit Unit Charter; and

2. Direct staff to implement the charters.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

N/A

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.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Audit Committee Charter final version
Attachment 2 - Audit Committee Charter marked-up version
Attachment 3 - Internal Audit Unit Charter final version
Attachment 4 - Internal Audit Unit Charter marked-up version
Attachment 5 - PowerPoint

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 21, 2022

PURPOSE

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

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

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

COMPOSITION, COMPENSATION & TERM OF SERVICE

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

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

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

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

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

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

AUTHORITY

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

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

3. Will include a Single Audit that will be performed, if required, subject to the Office of Management and Budget (OMB) Circular A-133.
4. Will include an opinion on each major fund presented in the Agency's financial statements.

- Review and recommend to the Board the approval of external auditors' reports, along with Management's written responses, when appropriate.
- Resolve any disagreements between Management, the Internal Audit Unit, and the external auditors regarding financial or operational controls and reporting.
- Ensure corrective action is taken on internal accounting control weaknesses identified by the internal and external auditors.
- Ensure corrective action is taken on audit findings, risks and recommendations identified by the Internal Audit Unit and/or accept risks identified through audit findings in lieu of corrective action, as deemed appropriate and necessary.

RESPONSIBILITIES

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

<u>Financial Reporting:</u>

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

Internal Controls:

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

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

<u>Internal Audit Unit:</u>

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

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

External Financial Audit:

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

- The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
- The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
- Any significant changes required in the external auditors' audit plan.
- Any serious difficulties or disputes with management encountered during the audit.
- Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.

- Evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm violates the independence standards of the GAO.

- Recommend that the Board of Directors approve the Agency's annual financial report, if the Committee believes that they are fairly presented, to the extent such a determination can be made on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

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

Other Matters:

- The Audit Committee shall engage consultants, specialists, or other audit firms as necessary to assist the committee in the discharging of its responsibilities.
- The Audit Committee shall direct the Manager of Internal Audit to review the Agency's Audit Committee Charter annually in order to advise the Audit Committee as to needed or recommended changes.
- The Audit Committee shall report to the Board of Directors issues discussed in the Audit Committee meeting that, in the judgment of the committee, warrant communication to the Board to help the Board fulfill its oversight responsibility.

ETHICAL CONDUCT

Audit Committee members are prohibited from participating in any event or matter that would create, or appear to create, a conflict of interest. These activities may include having a significant

financial interest or operational influence in vendors, contractors, customers or competitors of IEUA. Any activity creating an actual or apparent conflict should be immediately reported to the Audit Committee Chair and the Board of Directors for resolution.

MEETINGS

The Audit Committee shall meet no less than quarterly.

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 21, 2022~~1~~

PURPOSE

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

COMPOSITION, COMPENSATION & TERM OF SERVICE

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

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INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December ~~8~~21, ~~2021~~2022

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

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

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

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

3. Will include a Single Audit that will be performed, if required, subject to the Office of Management and Budget (OMB) Circular A-133.
4. Will include an opinion on each major fund presented in the Agency's financial statements.

- Review and recommend to the Board the approval of external auditors' reports, along with Management's written responses, when appropriate.
- Resolve any disagreements between Management, the Internal Audit ~~Department~~Unit, and the external auditors regarding financial or operational controls and reporting.
- Ensure corrective action is taken on internal accounting control weaknesses identified by the internal and external auditors.
- Ensure corrective action is taken on audit findings, risks and recommendations identified by the Internal Audit ~~Department~~Unit and/or accept risks identified through audit findings in lieu of corrective action, as deemed appropriate and necessary.

RESPONSIBILITIES

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

Financial Reporting:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December ~~8~~21, ~~2021~~2022

Internal Controls:

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

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

Internal Audit ~~Department~~Unit:

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

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

External Financial Audit:

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December ~~8~~21, ~~2021~~2022

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- Review with management and the external auditors:
  - The Agency's annual financial statements, related notes, and management's discussion and analysis.
  - The external auditors' audit of the financial statements and their report thereon.
  - The external auditors' judgments about the quality, not just the acceptability, of the Agency's accounting principles as applied in its financial reporting.
  - The external auditors' single audit of the federal awards administered by the Agency and their reports thereon.
  - Any significant changes required in the external auditors' audit plan.
  - Any serious difficulties or disputes with management encountered during the audit.
  - Matters required by Statement on Auditing Standards (SAS) No. 114, The Auditor's Communication With Those Charged With Governance; U.S. Government Accountability Office's (GAO) Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.

- Evaluate whether or not the performance of any extra work or special projects requested of the Agency's external audit firm violates the independence standards of the GAO.

- Recommend that the Board of Directors approve the Agency's annual financial report, if the Committee believes that they are fairly presented, to the extent such a determination can be made on the basis of reading the financial statements and discussions with Agency management and the external auditors.

Compliance:

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

Other Matters:

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

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

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

MEETINGS
The Audit Committee shall meet no less than quarterly.

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Unit Charter
Approved on December 21, 2022

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

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

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 21, 2022

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

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

Integrity
The Internal Audit Unit staff are required to maintain the highest degree of integrity in conducting its audit work.

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

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

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

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

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

The Manager of Internal Audit shall inform the Committee on the sufficiency of internal audit staffing and resources.

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

INDEPENDENCE

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

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

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

AUTHORITY

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

- Audit all areas of the Agency's operations.
- Perform audits of the Regional Sewage Service Contract agreement between the Agency and the Regional Contracting Agencies (RCA), including performing necessary audit field work and review of required supporting information and documents of the RCA's.
- Have unrestricted access to all Agency functions, records, information, property, and personnel.
- Have full and free access to Agency management, the Board of Directors and the Audit Committee.
- Allocate resources, set frequencies, select subjects and set objectives, determine the scope of work, and apply the techniques required to accomplish audit objectives, without interference from Agency management.
- Authority to deviate from the approved Annual Audit Plan, when necessary, urgent, and if warranted by unforeseen issues that require immediate attention. The Manager of Internal

Audit will use professional discretion and judgment in response to such unforeseen issues and resolve them according to the requirements of the Charter. Significant changes to or deviations from the approved Annual Audit Plan shall be reported to the Audit Committee in a timely manner or as soon as possible and to the Board at the next regularly scheduled Audit Committee meeting.

- Obtain the necessary assistance of Agency staff where Internal Audit performs audits, as well as other specialized services from within or outside the organization.
- Obtain regular updates from management and Agency legal counsel regarding compliance matters affecting operations.
- Establish procedures for the receipt, retention, and treatment of comments or complaints received regarding Agency accounting, operations, or internal controls, including those matters received through Ethics Point or other channels.
- Investigate and make recommendations to the Board, Audit Committee, senior management and/or Human Resources, as appropriate about reported instances of inappropriate activities, misappropriation of funds or fraud, including those matters received through Ethics Point or other channels.
- Obtain additional internal or external resources when the Internal Audit Unit does not possess all the necessary skills or experience to complete an audit or review, subject to the approval of the Audit Committee and when necessary, from the Board.
- Assist with the evaluation of the External Auditors and the Audit Committee Advisor and make appropriate recommendations to the Audit Committee and the Board.

The Manager of Internal Audit and the Internal Audit Unit staff are **not** authorized to:

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

RESPONSIBILITIES

The responsibilities of the Internal Audit Unit consist of the examination, review and evaluation of the reliability and effectiveness of the Agency's governance, risk management, internal controls, and the quality of operations and systems utilized in carrying out the Agency's goals and objectives. The Internal Audit Unit has the responsibility to perform its work with due professional care.

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

Internal Controls

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

Audit

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

Reporting

- Issue quarterly reports to and meet with the Audit Committee and management to summarize results of audit activities and status of findings and recommendations.
- Provide written status reports of IA activity to the Audit Committee quarterly. The Quarterly Status Report will include a summary of significant internal and external audit activities for the reporting period. The Status Report will be submitted for approval by the Committee and the approved Quarterly Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.
- Provide a written report listing all outstanding recommendations with expected resolution dates annually. The report of all outstanding recommendations will be submitted for approval by the Audit Committee and provided at the next regularly scheduled IEUA Board of Director's meeting.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing, as well as new audit requirements, when applicable.

- Immediately report any reservations concerning control risks, accounting or disclosure practices to the Audit Committee.
- If during the scope and progress of its reviews and audits, the Internal Audit Unit identifies opportunities for improving the Agency's control environment, processes and procedures to ensure an environment where assets are safeguarded, internal controls are in place and risk is mitigated, these recommendations will be communicated to the appropriate level of management and the Audit Committee as timely as necessary and in the written report.
- When deemed appropriate and necessary, provide responsible unit management with a preliminary written report of the results and recommendations of each audit, analysis, review, or investigation performed and sufficient time to respond in writing with a plan of corrective actions. Sufficient time to reply would be 30 to 60 days from the date of the final report.

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

STANDARDS OF ETHICAL CONDUCT

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

- Performing internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Exercising honesty, diligence, and responsibility in performing duties.
- Observing the law and making disclosures expected by the law and the profession.
- Not knowingly being a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the Agency.
- Respect and contribute to the legitimate and ethical objectives of the Agency.
- Not participating in any activity or relationship that may impair, or be presumed to impair, unbiased assessments, including activities or relationships that may be in conflict with the interests of the Agency.
- Not accepting anything that may impair or be presumed to impair professional judgment.
- Disclosing all material facts known that, if not disclosed, may distort the reporting of activities under review.
- Being prudent in the use and protection of information acquired in the course of duties.

- Not using information for personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Agency.
- Engaging in only those services or audit activities for which Internal Audit staff have the necessary knowledge, skills, and experience.
- Continually improving staff proficiency, and the effectiveness and quality of services.

MANAGEMENT RESPONSIBILITIES

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

Management's responsibilities include:

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit ~~Department~~ Unit Charter
Approved on December ~~8~~21, ~~2021~~2022

PURPOSE

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

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

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

MISSION

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December ~~8, 2021~~21, 2022

VALUES

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

Independence

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

Integrity

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

Professionalism

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

Collaboration

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

ACCOUNTABILITY

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December ~~8, 2021~~21, 2022

The ~~Internal Auditor~~Manager of Internal Audit shall inform the Committee on the sufficiency of ~~department~~ internal audit staffing and resources.

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

INDEPENDENCE

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

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

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

AUTHORITY

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

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

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

The ~~Internal Auditor~~Manager of Internal Audit and the Internal Audit ~~Department~~Unit staff are **not** authorized to:

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

RESPONSIBILITIES

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December ~~8, 2021~~21, 2022

The responsibilities of the Internal Audit ~~Department~~Unit consist of the examination, review and evaluation of the reliability and effectiveness of the Agency's governance, risk management, internal controls, and the quality of operations and systems utilized in carrying out the Agency's goals and objectives. The Internal Audit ~~Department~~Unit has the responsibility to perform its work with due professional care.

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

Internal Controls

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

risk identified through the audit. Conduct special projects, studies, or audits as requested by management, the Audit Committee and the Board of Directors.

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

Audit

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

Reporting

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

Committee and the approved Quarterly Status Report will be presented at the next regularly scheduled IEUA Board of Directors meeting.

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

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

STANDARDS OF ETHICAL CONDUCT

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

- Performing internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Exercising honesty, diligence, and responsibility in performing duties.
- Observing the law and making disclosures expected by the law and the profession.

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

MANAGEMENT RESPONSIBILITIES

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

Management's responsibilities include:

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

- Providing the Internal Audit ~~Department~~Unit with adequate budget, staffing, assistance from staff of audited ~~Departments~~departments, and the tools needed for the Internal Audit ~~Department~~Unit to execute its duties as defined in this Charter.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Audit Committee & Internal Audit Charters

Sapna Nangia

Senior Internal Auditor

December 2022

Charters

No substantial changes/updates

Audit Committee Charter

- Purpose
- Composition
- Authority
- Responsibilities
- Meetings

Internal Audit Unit Charter

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

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Board Recommendation:

1. Approve the Audit Committee Charter and the Internal Audit Unit Charter; and

2. Direct staff to implement the charters.

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

INFORMATION ITEM 2A

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

12/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: P2P Review of Procure to Pay Processes for Materials and Supplies

Executive Summary:

Internal Audit (IA) staff completed an evaluation of the procure to pay (P2P) process for the Agency's Materials and Supplies (M&S). The objective of the audit was to evaluate the ordering, receiving, and processing of payments, to identify problems and bottlenecks in the payment processes to pay M&S vendor invoices timely, eliminate credit holds placed by the vendors, and propose recommendations to make the processes more efficient.
Every department/unit in the Agency purchases materials and supplies, this audit focuses on purchases made by Operations, Maintenance, Facilities, the Warehouse and the Laboratory.
The audit found that there are delays/challenges in performing the receiving function because there are no formal guidelines to process timely receiving in the financial system, including minimal to no visibility, tracking and monitoring of vendor invoices and receiving/delivery documentation, and staff time spent to obtain the receiving documentation needed. There are delays and challenges in processing invoices for payment because there are no formal guidelines to monitor and track all invoices and payments due, there is no method for prioritizing vendor invoice matching and follow up of items requiring the receiving function be completed timely.
IA provides recommendations to improve communication among the different units and implement procedures. The audit report provides details of observations and recommendations.

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:

Attachments:

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

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: December 2, 2022

TO: Shivaji Deshmukh
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

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

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) has performed an audit of the Procure to Pay Processes (P2P) of Materials and Supplies. 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 IA's Charter. An Interim Audit report and a Status Update were provided to the Audit Committee in June 2022 and September 2022, respectively. This report documents the final audit report for the P2P for Materials and Supplies audit.

Audit Objectives and Scope:

The objective of the overall Accounts Payable Operational and Internal Controls Audit is to evaluate the various procure to pay processes and operations of the different 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 Procure to Pay Processes (P2P) for Materials and Supplies is to evaluate the many processes to ensure materials and supplies' invoices are paid on time, and to identify opportunities to make the process more efficient and ensure invoices are paid timely.

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
- Identify reasons for vendor credit holds
- Evaluate the use of technology and reporting tools
- Identify inefficiencies in the processes
- Propose recommendations to make processes more efficient

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

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

- Interim Audit Report: Accounts Payable Operational and Internal Controls Audit (dated August 20, 2021) This comprehensive report evaluated invoice and payment data and metrics, including the total number of invoices paid on time or late and the number of days invoices were paid after the due date, along with other analysis of financial information.

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

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

- Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Planning and Resources (dated May 25, 2022) This report evaluated the Procure to Pay Processes related to Professional Services administered by Planning and Resources. IA provided 11 recommendations to: Planning and Resources, CAP, and the Accounting Unit.

- Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Processes for Home Depot (dated September 1, 2022) This report evaluated the Procure to Pay Processes related to Home Depot Credit Cards. IA provided 7 recommendations to: CAP, Accounting, and all departments using Home Depot Credit Cards.

Quarterly progress reports are submitted to the Audit Committee to report on the implementation status of all P2P recommendations. IA will continue to evaluate the payment processes related to other departments' goods and services or other P2P processes.

Audit Techniques applied:

- Interviews of Agency staff
- Review of Agency policies and procedures
- Review of department Standard Operating Procedures (SOPs)
- Analysis of financial transactions
- Review of supporting documents

Audit Results – Executive Summary

This audit will be referred to as "P2P M&S" and includes an evaluation of the processes for ensuring timely payment of invoices related to materials and supplies made by the following units: Operations, Maintenance, Facilities, Warehouse, and the Laboratory. IA proposes 19 audit recommendations among the different units for consideration to improve controls, processes, and procedures.

Timely procurement of materials and supplies is essential for maintaining key Agency functions, including operation of treatment plants and facilities. Types of items the Agency purchases that fall into materials and supplies include, but are not limited to, equipment, tools, parts, and items for work orders, maintenance, and repairs.

Contracts and Procurement identified eight different procurement methods used for obtaining materials and supplies, in no specific order: catalog purchase orders, standard purchase orders, blanket purchase agreements, emergency procurements, cooperative/piggyback procurements, budgeted procurements, credit cards and contracts. Of these methods, purchase orders, blanket purchase agreements and credit cards are the more commonly used methods for procuring materials and supplies.

The Agency spends over $4M a year on purchases with vendors to procure materials and supplies for the departments mentioned. (Part of this total is related to services provided by the same materials and supplies' vendors).

Fiscal Year 2021-2022 - Payments to Materials and Supplies Vendors	
Category	**Payment Amount**
M&S Vendors	$4,220,222
Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figure is based on the amounts remitted to vendors (ZA & ZC types on the AP Monitoring Report). The amount includes goods and services purchased with the identified materials and supplies vendors.	

The report that follows provides details of IAs observations and recommendations.

This audit report is organized as follows:

- IA observations and recommendations
- Flowcharts and narratives documenting the current Procure to Pay Process for Operations, Maintenance, Warehouse and Facilities
- Flowcharts and narratives documenting the current Procure to Pay Process for the Laboratory
- Background information about the departments being evaluated
- Financial data and analysis of transactions selected and results of the detailed audit testing

Acknowledgements
IA would like to extend our appreciation to staff who assisted us during this review, including staff from the following units: Operations (OPS), Maintenance (MNT), Warehouse (WHSE), Facilities and Water System Programs (FWSP), the Laboratory (Lab), Accounting, Contracts and Procurement (CAP), and Information Technology (IT). The observations and recommendations in this report were shared with each of the respective units and departments between November 18, 2022, through November 29, 2022, their comments have been considered and where possible their responses have been incorporated. IA looks forward to the continued collaboration.

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

TV:sn:bs

Observations and Recommendations
Procure to Pay Process for Materials and Supplies

The prior Accounts Payable Operational and Internal Controls Audit Reports noted: ***Agency invoices are not being paid within vendor 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 P2P for Materials and Supplies.

Delays and/or challenges in performing the receiving function in SAP are due to:

- *Staff time spent to obtain the receipts, back-up or delivery documentation*
- *Staff time spent looking into and resolving credit holds*
- *No guidelines to ensure receiving documents are provided to the appropriate staff*
- *No formal guidelines and training for the appropriate receiving process and this leads to delays, errors, reversals, and inaccurate transactions, etc.*
- *Orders not completely fulfilled on first shipment and credited orders*
- *Limited visibility of vendor invoices sometimes needed to complete the receiving*

Delays and/or challenges in processing invoices for payment by the due date are:

- *No method to account for and track all invoices and payments due*
- *No method for timely routing invoices needing approval signatures*
- *No procedures for timely processing invoices payments by the due date*
- *No method for completing timely, consistent vendor invoice matching*
- *Processes and procedures require changes to make them more efficient*
- *There are no documented SOPs for Accounting processes to establish and ensure a consistent, best practice methodology for prioritizing and processing payments*

Risks and other challenges for the Agency related to late payments:

- *<u>Credit hold and purchases declined</u> – after staff spend time attempting purchases, staff are informed that there is a credit hold and purchases cannot be made, this causes delays in placing orders. Various IEUA employees get involved in working to resolve the credit hold. This creates inefficiencies and delays and time spent to resolve the credit hold instead of primary responsibilities.*

- *<u>Unable to receive the best value</u> – when the Agency is placed on credit hold, staff are unable to purchase from the vendor that has placed the credit hold and must purchase the items using other vendors that may not provide the best pricing.*

- *<u>Delays in placing and receiving materials & supplies needed</u> – when the Agency is placed on credit hold, staff are unable to purchase from the vendor that has placed the credit hold. If that vendor is the only vendor that offers the item, staff must wait until the credit hold is resolved before the item can be purchased.*

- *<u>Reputation risk</u> – risk of damaged reputation and image of IEUA with vendors.*

The matrix that follows, identifies 19 audit observations and recommendations based on IA's analysis of the processes and the findings noted: 3 for the PCard Administrator, 2 for CAP, 2 for Facilities, 2 for Operations, 2 for Maintenance, 2 for Warehouse, 4 for Lab, and 2 for Accounting. The flowcharts that follow illustrate the steps involved in completing the purchasing, receiving and payment processes for materials and supplies. The financial information that follows summarizes IAs audit procedures applied to a selected sample of transactions and the results provide additional support for the observations identified.

Internal Audit's List of Observations and Recommendations				
	Dept taking the lead to implement	**Observation, Issue, or Idea**	**Recommendation**	**Impact on revised/updated process with recommendation being implemented**
1	**Procurement Card Administrator**	**<u>PCard Policies</u>** The Agency has recently expanded the PCard Program to consolidate the various credit programs used by the Agency and to make small dollar purchases more efficient. The expanded program should be continuously monitored to ensure it is accomplishing the intent of the program. The PCard Administrator should take the lead to ensure the Procurement Ordinance and related policies are updated and adhered to. The updated Procurement Ordinance was recently adopted by the Board. The Procurement Card Policy currently available on the Agency's website is from 2016, this policy is in progress of being updated. IA reviewed the proposed policy updates and provided recommendations in August of 2022.	The PCard Administrator should establish a strategy to continuously review the program and the related policies and reinforce the guidelines and requirements of the Procurement Ordinance, Procurement Card Policy and other related Agency Policies that provide guidelines and policies for the use of PCards. Additionally, to take the lead to make necessary updates to policies and processes and ensure employees are aware of the required policies, to ensure the PCard program is working as intended.	Ensuring PCard users have the most updated guidance and policies, will minimize non-compliances, and ensure the program operates as intended.
2	**Procurement Card Administrator**	**<u>PCard oversight and monitoring</u>** The Agency has recently expanded the PCard Program to consolidate the various credit programs used by the Agency and to make small dollar purchases more efficient. The expanded program should be continuously monitored to ensure there is adequate oversight to ensure purchasing activity conforms to the guidelines set forth in the Procurement Ordinance, the Procurement Card Policy and other related Agency policies.	Perform periodic spend analysis to provide an added level of oversight and to identify potential maverick or unauthorized spending, splitting or duplicate purchases, etc., or other errors or misuse. Ensure any misuse is reported to the appropriate level and reinforce Agency policies.	Establishing effective Agency policies, guidelines and criteria for monitoring spending activity to

3	**Procurement Card Administrator**	**<u>PCard training and guidance</u>** The Agency has recently expanded the PCard Program to consolidate the various credit programs used by the Agency and to make small dollar purchases more efficient. With the expanded program updates and changes to the processes, procedures and policies are necessary. Changes and updates to the program should be frequently communicated to all users to ensure there is consistency, reinforcement and clear guidelines about the use of the proper use of the program.	Continuously work directly with users to provide needed training and guidance on processes related to the PCard to ensure users understand the intent and requirements of the program.	Training and guidance provide reinforcement, reminders, and information about the processes and procedures expected for the use of the programs, may prevent policy violations, and establishes consistency in the processes.
4	**CAP**	**<u>Manual Processing of POs</u>** CAP department staff are manually processing a large number of low-dollar purchase orders under $10,000. CAP and various departments have indicated that establishing an automated purchase order processing system for low-dollar purchases would reduce the time it takes for purchase orders to be generated and sent out for these purchases.	CAP should consider working with IT to set up an automated purchase order processing system. The new system should include a system of checks and balances for purchase order approval. Upon approval, the Agency's financial system, SAP, should automatically generate the purchase order and email it to the vendor, requestor, and CAP staff.	Automated processing of purchase orders will: • Reduce the amount of time it takes for a purchase order to be generated and sent out. • Prevent CAP staff from having to use time to complete a process that can be automated.
5		**<u>Contact Information for POs</u>** Maintenance would like to see that PO information in SAP contain contact information about the requestor to ensure there is a go to person in case any questions about items being requested arises. Currently, there is no Agency employee contact information in SAP PR/PO, in instances when vendors call for questions, it takes too long for staff to research the appropriate contact person.	CAP take the lead to work with IT to ensure there is a designated line item/area in SAP where users can add contact information about the PR/PO to facilitate follow up questions from either staff or vendors. It would be beneficial to have the contact information for the person that initiated the requisition. For vendor follow up. *CAP indicated that SAP can populate the information with the SAP user information and they are already working with IT to have this information populate on the PO.*	Having a standard location where the corresponding contact information can be located helps in ensuring that follow up questions can be directed to the appropriate IEUA staff, for example, questions about the requested goods, possible delays, substitutes or other items.
6	**Facilities and Water System Programs**	**<u>Procedures and Goals for Timely Receiving Needed</u>** There are no KPI, metrics or goals and there are no documented procedures for the timely processing of receiving. In order to allow Accounting sufficient time to make payments by the invoice	Facilities and Water System Programs should establish and document clear procedures, KPI's, metrics and/or goals for the timely processing of all receiving. (May consider using as an example similar new procedures	Having established and documented procedures, KPIs, metrics, goals and procedures for completing receiving in a timely manner will

		due date, the SAP receiving needs to be completed in a timely manner.	established for chemical receiving is done within 5-7 days).	increase receiving efficiency which will provide Accounting the time needed to make punctual payments.
7	**Facilities and Water System Programs**	**Review Open PO Report** There appears to be confusion on other administrative assistants to complete SAP receiving for items ordered/delivered. IA recommends periodically review the Open PO Report that is automatically sent via email each month. This report serves various purposes for monitoring PO spending amounts, and it should also be used to identify any purchases made that require SAP receiving. This added monitoring and review will assist the department/unit identify items purchased and delivered that have not been received in SAP and may delay vendor payments.	Periodically review the Open PO Report as an additional monitoring control to check for any items that require receiving in SAP. Also, refer to closing information/instructions provided by Accounting each month for the SAP code to run the report and for additional closing instructions or seek assistance from Accounting or CAP to run report or identify items that still require receiving in SAP.	Reviewing the Open PO report will provide an added level of monitoring for open items that require receiving in SAP instead of waiting for vendors calling for late payments or waiting on the invoice from Accounting.
8	**Operations**	**Procedures and Goals for Timely Receiving Needed** The audit noted various items that were paid late in some instances, items took over 30 days to complete the receiving. The reasons for the delays in receiving may be different for each transaction or among the different units; it is important to ensure timely receiving to allow accounting sufficient time to process payments. Currently, there are no KPI, metrics or goals and there are no documented procedures for the timely processing of receiving. To allow Accounting sufficient time to make payments by the invoice due date, the SAP receiving needs to be completed in a timely manner by each unit/dept. This receiving will continue to be necessary even with the implementation of the new upload Software tool.	Operations should establish and document clear procedures, KPI's, metrics and/or goals for the timely processing of all receiving. This includes ensuring that anyone who physically receive shipments of goods, promptly forward the shipping documents to the appropriate person that will perform the receiving in SAP. Ensure the procedures include details of the expectation of all involved in the receiving process, from the person who physically receives items, to the individual who does the receiving in SAP, including procedures to use current/existing or other technology when feasible and if it makes the process more efficient and quicker. Ensure procedures contain metrics, goals and KPIs for the timeliness of the items.	Having established and documented procedures, KPIs, metrics, goals for each step of the receiving process to ensure receiving is completed timely and accurately will increase receiving efficiency which will provide Accounting the time needed to make punctual payments.
9	**Operations**	**Review Open PO Report** There appears to be confusion among the administrative assistants about completing SAP receiving for items ordered/delivered. IA recommends periodically review the Open PO	Periodically review the Open PO Report as an additional monitoring control to check for any items that require receiving in SAP. Also, refer to closing information/instructions	Reviewing the Open PO report will provide an added level of monitoring for open items that require receiving in SAP instead

		Report. This report serves various purposes for monitoring PO spending amounts, and it should also be used to identify any purchases made that require SAP receiving. This added monitoring and review will assist the department/unit identify items purchased and delivered that have not been received in SAP. This will be an additional monitoring control to review for open items that may delay vendor payments.	provided by Accounting each month for the SAP code to run the report and for additional closing instructions or seek assistance from Accounting or CAP to run report or identify items that still require receiving in SAP.	of waiting for vendors calling for late payments or waiting on the invoice from Accounting.
10	**Maintenance**	**<u>Procedures and Goals for Timely Receiving Needed</u>** The audit noted various items that were paid late in some instances, items took over 30 days to complete the receiving. The reasons for the delays in receiving may be different for each transaction or among the different units; it is important to ensure timely receiving to allow accounting sufficient time to process payments. Currently, there are no KPI, metrics or goals and there are no documented procedures for the timely processing of receiving. To allow Accounting sufficient time to make payments by the invoice due date, the SAP receiving needs to be completed in a timely manner by each unit/dept. This receiving will continue to be necessary even with the implementation of the new upload Software tool.	Maintenance should establish and document clear procedures, KPI's, metrics and/or goals for the timely processing of all receiving. This includes ensuring that anyone who physically receive shipments of goods, promptly forward the shipping documents to the appropriate person that will perform the receiving in SAP. Ensure the planners forward any information about items ordered or received promptly to the administrative assistants for receiving into SAP. Ensure the procedures include details of the expectation of all involved in the receiving process, from the person who physically receives items, to the individual who does the receiving in SAP, including procedures to use current/existing or other technology when feasible and if it makes the process more efficient and quicker. Ensure procedures contain metrics, goals and KPIs for the timeliness of the items.	Having established and documented procedures, KPIs, metrics, goals and procedures for completing receiving in a timely manner will increase receiving efficiency which will provide Accounting the time needed to make punctual payments. Utilizing technologies such as iPhones to upload delivery documentation into SharePoint/OneDrive will reduce the time that it takes for documents to be uploaded which will increase receiving efficiency.
11	**Maintenance**	**<u>Review Open PO Report</u>** There appears to be confusion among the administrative assistants about completing SAP receiving for items ordered/delivered. IA recommends periodically review the Open PO Report. This report serves various purposes for monitoring PO spending amounts, and it should also be used to identify any purchases made that require SAP receiving. This added	Periodically review the Open PO Report as an additional monitoring control to check for any items that require receiving in SAP. Also, refer to closing information/instructions provided by Accounting each month for the SAP code to run the report and for additional closing instructions or seek assistance from Accounting or	Reviewing the Open PO report will provide an added level of monitoring for open items that require receiving in SAP instead of waiting for vendors calling for late payments or waiting on the invoice from Accounting.

		monitoring and review will assist the department/unit identify items purchased and delivered that have not been received in SAP. This will be an additional monitoring control to review for open items that may delay vendor payments.	CAP to run report or identify items that still require receiving in SAP.	
12	**Warehouse**	**<u>Procedures and Goals for Timely Receiving Needed</u>** Also, there are no KPI, metrics or goals and there are no documented procedures for the timely processing of receiving. In order to allow Accounting sufficient time to make payments by the invoice due date, the SAP receiving needs to be completed in a timely manner.	Warehouse should establish and document clear procedures, KPI's, metrics and/or goals for the timely processing of all receiving, similar to the new procedures established to ensure receiving for chemicals within 5-7 days. Warehouse indicated that they currently complete the receiving in SAP within 3-5 days and rely on the Open PO Report to monitor the timeliness of receiving. Additionally, Warehouse staff indicated that they perform the receiving for anything that comes through the warehouse and sometimes items that do not come through the warehouse, whether it is inventory or not.	Having established and documented procedures, KPIs, metrics, goals and procedures for completing receiving in a timely manner will increase receiving efficiency which will provide Accounting the time needed to make punctual payments.
13	**Warehouse**	**<u>Receiving by Warehouse:</u>** There appears to be a disconnect and lack of clear guidelines, therefore, a continuous need to discuss and reinforce the receiving responsibilities by each of the administrative assistants and the need for delivery/shipping documentation. IA noted some delays in the receiving function that may be due because there is a need to communicate and clarify which unit is responsible for completing the receiving function in SAP. Currently, Operations, Maintenance, Facilities and other units are under the impression that all receiving in SAP is done by Warehouse personnel when items are delivered at the Warehouse.	Warehouse staff should take the lead to frequently communicate with all administrative assistants about the responsibilities for completing the receiving function in SAP for inventory and non-inventory items and for items that are physically delivered to the warehouse and those delivered to other Agency locations. Warehouse staff may want to periodically send out email messages or use other forms of disseminating information about the responsibilities for SAP receivers. Warehouse should use the Open PO report as tool to guide the discussion about the items needing receiving.	Periodic meetings (monthly or weekly) will assist all administrative assistants to clarify the receiving function to ensure duties are clear and receiving in SAP is completed timely. The Warehouse staff may want to use the Open PO report as a tool and guide about the items that need to be received.
14	**Lab**	**<u>Procedures and Goals for Timely Receiving Needed</u>** There are no KPI, metrics or goals and there are no documented procedures for the timely processing of receiving.	Lab should work closely with Accounting and CAP to establish and document clear procedures, KPI's, metrics and/or goals for the timely processing of all receiving	Having established and documented procedures, KPIs, metrics and goals for completing receiving in

		To allow Accounting sufficient time to make payments by the invoice due date, the SAP receiving needs to be completed in a timely manner.	into SAP, for both goods and services. (Similar to the new procedures established to ensure receiving for chemicals is completed within 5-7 days).	a timely manner will increase receiving efficiency which will provide Accounting the time needed to make punctual payments.
15	**Lab**	**<u>Technology to Make Receiving Process More Efficient</u>** When items are received, staff scan delivery documents, then rename the scan and attach it to an email to provide the delivery documentation to their administrative staff for SAP receiving. This method is slower than using new or existing technologies to upload the documents into SharePoint/OneDrive and rename the file. (Similar to what Operations implemented for chemical receiving which resulted in operational efficiencies with staff now using iPhones to directly upload into SharePoint/OneDrive).	Lab should incorporate the use of existing or new technologies (such as iPhones) to upload delivery documentation directly into SharePoint/OneDrive for their administrative staff. (Lab agrees to use technology and mentioned that they currently have 2 shared Lab iPhones that can be used for the uploading of documents to make the process more efficient.)	Utilizing technologies such as iPhones to upload delivery documentation into SharePoint/OneDrive will reduce the time that it takes for documents to be uploaded which will increase receiving efficiency. This will provide Accounting with more time to make punctual payments.
16	**Lab**	**<u>Open PO Report</u>** Currently, there is no process in place for the Lab staff to verify and review the Open PO Report to identify any open POs for goods purchased and delivered that require receiving in SAP. IT created the Open PO Report and circulated via email each month. Staff can review their vendors for any open POs to ensure they perform the necessary receiving for the items received. By reviewing the Open PO report, staff can verify purchases placed and received, and ensure the proper SAP receiving is completed as soon as possible to prevent delays in vendor payments.	Periodically review the Open PO Report as an additional monitoring control to check for any items that require receiving in SAP. Also, refer to closing information/instructions provided by Accounting each month for the SAP code to run the report and for additional closing instructions or seek assistance from Accounting or CAP to run report or identify items that still require receiving in SAP.	Reviewing the Open PO will provide an added level of monitoring and review for open items that require receiving in SAP before vendors call looking for invoice payments or waiting on the invoice from Accounting.
17	**Lab**	**<u>Ongoing/Periodic Meetings to Improve Efficiency</u>** Currently, the Lab does not have dedicated staff to perform the SAP receiving function and rely on Engineering's staff. While Engineering has been very helpful, a dedicated person that understands the Lab's transactions/purchases would ensure Lab items are processed quicker because of the familiarity and	Lab staff should take the lead to periodically meet with staff completing SAP receiving (currently Engineering administrative staff or other administrative assistant) to discuss and coordinate receiving responsibilities, including: • Create a list to indicate which Lab staff to send invoices to for approval via DocuSign (provide	Ensuring that receiving staff completing the Lab's SAP receiving are familiar with the types of invoices and transactions, will expedite the receiving process.

		knowledge of the transactions. To ensure the administrative personnel familiarizes with the Lab's needs, coordination meetings should be planned to discuss the details of the Lab's receiving needs. These meetings would be with designated Lab receivers, AP staff or others responsible for the receiving into SAP and processing invoices.	list to Accounting or administrative assistance as a guide). • Discuss items that always need invoices sent for signature approval (i.e., Airgas rentals).	
18	**Accounting**	**<u>Invoice Routing</u>** There are instances where the invoice for goods purchases is required by staff performing the receiving to complete the goods receiving with the invoice. There are some vendors that either do not provide shipping/delivery documents, or fulfill orders in partial deliveries, or the invoices includes labor or services and therefore, the actual invoice of goods is required to complete the receiving. If staff completing the receiving do not have the invoice, they are not able to complete the receiving in SAP timely when items are received. Accounting should consider routing all invoices for receiving/approval purpose or establish lists of vendors where staff performing the receiving require the invoice to complete the receiving.	Accounting should consider routing all invoices to all Agency staff and place the responsibility on department staff to perform receiving with shipping documents when those are available and use the invoices when delivery/shipping documents are not available. As an example, *Maintenance indicated that the vendors Superior and Royal are a couple examples of vendors that include labor on the invoices and therefore, staff require the invoice for the receiving process. The Lab indicated that Fisher Scientific sends orders in partial shipments and does not include shipping documents therefore staff require the actual invoice from staff to perform the receiving.*	Ensuring staff is provided with all documentation to verify, confirm receiving of items and processing the proper receiving in SAP will expedite completing the receiving.
19	**Accounting**	**<u>Coordination Meetings</u>** It is beneficial for Accounting to lead periodic meetings with the administrative assistants and responsible receivers to discuss receiving and invoice issues before they become problems. This was a recommendation in the P2P Chemicals audit and was implemented. Things discussed during those meetings were the Invoice Held Report, vendor phone calls, PO issues and any other issue/concern to discuss resolutions for moving forward. Accounting indicated that because of the Esker implementation in progress, the meetings have been suspended. Administrative assistants mentioned	Accounting should continue to lead periodic meetings with the administrative assistants or staff responsible for SAP receiving and if needed include CAP staff or others to discuss open items, invoices, receiving responsibilities and anything requiring attention to ensure vendor payments are made timely.	Frequent meetings, updates and discussions improve responding to items that require attention and improve cross-department collaboration. This may reduce the instances when similar issues continue to re-occur.

		that these were very helpful meetings and would like to see these continued.		
RESTATED	**Accounting (Restated)**	**<u>Procedures for Timely Payments</u>** 20 of the 35 or 57% of items selected were paid late for various reasons: • 18 of the 35 or 51% of items selected showed AP processed payment more than 30 days after SAP receiving was completed (not including partial shipments). (Sample No. 1, 4, 7, 9, 10, 11, 12, 13, 16, 17, 19, 23, 27, 29, 30, 32, 34, 35). • 7 of the 35 or 20% of items selected showed longer than 30 days between the invoice date and the date AP staff acknowledged the receipt of the invoice. (Sample No. 1, 8, 11, 19, 20, 29, 34). It is unclear if AP did not receive the invoice as no justifying information or reason was documented. Accounting should implement a consistent best practices methodology to ensure payments are made on time and prevent late payments and credit holds.	Document and formalize in an Agency Policy or 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. ***Restated Recommendation:*** ***This recommendation was provided in the P2P Chemicals as Recommendation #33 and will continue to be In Progress until addressed/implemented.***	Ensuring timely vendor payments will minimize or eliminate late payments, delays in placing orders, and credit holds placed on the Agency by vendors. If there are delays processing the payment, AP may want to have a documented reason for the delay or ensure delays are addressed and resolved with the corresponding staff, timely.

Procure to Pay Process for Materials and Supplies (M&S)

Contracts & Procurement (CAP)

The processes below have been summarized by IA using the requirements in Procurement Ordinance 110. The purpose of this narrative is to provide the overall process without providing all the technical details. To see all the technical requirements, please refer to Procurement Ordinance 110.

CAP identified eight (8) potential procurement options for M&S, six (6) of which are detailed in this report and two (2) of which have already been detailed in previous procure to pay (P2P) audit reports – credit cards (processes previously detailed in the Review of P2P Processes for Home Depot) and contracts (processes previously provided in the Review of P2P for Engineering and Construction Management and the Review of P2P for Planning and Resources). Of these procurement options, purchase orders, blanket purchase agreements and credit cards are some of the more commonly used methods.

Processes outlined in this audit report:

1) Catalog Purchase Orders
2) Standard Purchase Orders
3) Blanket Purchase Agreements
4) Emergency Procurements
5) Cooperative and Piggyback Procurements
6) Budgeted Procurements

Processes previously provided in prior P2P audit reports:

7) Credit Cards
8) Contracts

Catalog Purchase Orders

Catalog purchase orders are procurements made through SAP and the vendor's catalog website.

1) Requesting Agency staff select the applicable catalog and SAP takes them to the specific vendor's catalog website which shows M&S and their corresponding national cooperative contract pricing.
2) Upon checking out with the items placed in the cart, the requesting agency staff is redirected back into SAP, and SAP populates the purchase requisition (PR), stock-keeping unit (SKU), price, and description.
3) Next, requesting agency staff manually add the vendor number, material group numbers, and delivery locations in addition to completing the account assignment.
4) The PR is approved through workflow in SAP.
5) CAP staff goes on the catalog website and converts the PR to a purchase order (PO).
6) CAP either emails the PO to the vendor or CAP goes onto the website and uses the PO number to place the order.
7) Placing the order generates an order acknowledgement that is emailed to CAP, which is forwarded from CAP to the requestor, so that it can be used for receiving.

Standard Purchase Orders

Standard purchase orders are procurements where the requesting agency staff enter the PR, and if CAP approves based on Procurement Ordinance 110, CAP will generate the PO and place the order.

1) The requesting agency staff will obtain the required number of quote(s) or proposal(s) for the M&S and enter the PR with the requestors' justification per the Agency Procurement Ordinance 110 thresholds and requirements including but not limited to:
    a. For procurements less than $10,000 – one quote is required.
    b. For procurements greater than $10,000 and less than or equal to $50,000 – solicitations must be posted on the electronic solicitation system or sent and documented by email to prospective vendors with a minimum of two competitive written or electronic responses in cooperation with CAP.
    c. Formal competitive solicitations are required for all Agency procurements as set forth and adjusted by applicable CA Public Contract Code (PCC) (e.g. $35,000 for 2022)... and, at minimum, must be advertised in one general circulation newspaper within the Agency's geographic boundaries and/or advertised on either the Agency's website and/or a regional purchasing website as determined by the Manager of CAP. Whenever practical, a minimum of 14 calendar days must be provided for a response with a minimum of one competitive

response or solicitations directed to a minimum of 5 potential respondents when available. The formal competitive solicitation process can be waived at the discretion of the GM or designated representative if there is a compelling reason to do so.

d. Board approval is required for competitively let, single, or sole source procurements greater than $150,000, unless the procurement is a competitively-let "budgeted procurement" under $350,000, specifically identified as a detailed line item in the adopted budget.

2) CAP will review the appropriate submittal package per Procurement Ordinance 110. If the requirements are met, CAP generates the PO and then emails and places the order for the department.

Blanket Purchase Agreements

Blanket purchase agreements are an expedited way to order for routine, repetitive purchases with fixed negotiated pricing that allow the use of the blanket purchase agreement (BPA) number to place orders without needing to submit PRs/POs throughout the year.

1) CAP reviews previous years historical purchases by vendor.
2) At end of the fiscal year, CAP looks at the previous amount spent and frequency of use. CAP then makes predictions for the next year.
3) The cutoff for yearly spending to attain a BPA is currently $3,500 with frequent purchases being made with the vendor.
   a. If under $3,500 or infrequent purchasing, CAP generates standard POs.
   b. If over $3,500 with frequent purchasing, CAP continues with the BPA.
4) Once it is a new FY, the Agency requesting staff enters the PR for the amount the budget allows for.
5) CAP generates the BPA and the blanket purchase order (BPO) with the max/target value and submits them to the manager of CAP for approval.
6) Upon approval, CAP generates a new fiscal year blanket purchase agreement purchase order (BPAPO) for receiving and paying invoices. CAP also uses SAP to generate a new BPA with the terms of the agreement.
7) Specific staff are selected that are allowed to order using the BPA number.
8) Selected staff place orders throughout the year using the BPA number.

Emergency Procurements

Emergency procurements are any procurements needed to prevent imminent danger, any immediate condition that would significantly affect the health/safety of the public or Agency employees/clients or could have a significant negative financial impact on the Agency, and any other emergencies.

1) The GM or his designee can approve and execute the emergency procurement for any amount.
2) The PR is entered by Agency staff after the emergency has been resolved.
3) Once it is fully approved, CAP generates a PO or other payment type.
4) CAP follows up with documentation after the emergency has been resolved
5) The GM or his designee will report the details of the emergency at the next scheduled board meeting.

Cooperative and "Piggyback" Procurements

Cooperative procurements are carried out in the interest of two or more public procurement units to gain the benefit of volume purchasing, economies of scale, and/or reduction in administrative expenses. "Piggyback" procurements use another public agency's contract or agreement to gain better prices and terms than can be otherwise obtained on the open market.

1) Agency staff will reach out to procure M&S via a PR and attach a scope with what is desired.

For cooperative procurements – steps 2-5 below apply:

2) CAP will research to find the best suited contract that meets the needs of the purchaser and falls within their budget. Then CAP will attain quotes from the cooperative contract that was found, and if the contract meets the needs of the department, it will be used for the purchase.
3) Agency staff will enter a PR.
4) CAP generates a PO using the quoted pricing referencing the cooperative contract on the PO.
5) CAP generates a PO using the established procurement process.

For "Piggyback" procurements – steps 2-5 below apply:

2) CAP will research other public agencies that have purchased similar M&S. If pricing is found that is lower than what the Agency has currently under contract, CAP will reach out to the public agency to attain their contract and acquire permission

to "Piggyback" off the contract. If that contract meets the needs of the purchaser, CAP will generate a new contract or PO referencing the "Piggybacked" contract. The new contract will then be used for the purchase.
3) Agency staff will enter a PR.
4) CAP generates a PO using the quoted pricing referencing the "Piggybacked" contract on the PO.
5) CAP generates a PO using the established procurement process.

Budgeted Procurements

Budgeted procurements are capital projects and operations and maintenance items that have been specifically identified and included as part of the adopted budget, or as a respective amendment of the adopted budget. Board approval is typically needed for competitively let procurements over $150,000, but if the competitively-let budgeted procurement is under $350,000 and specifically identified as a detailed line item in the adopted budget, board approval is not required.

1) Agency departments develop their annual budgets and designate planned expenditures that will be made.
2) Agency staff may set the procurement up as a project or add it as a line item to the adopted department budget.
3) Agency staff will generate a budgeted line-item type PR and attach a screenshot from SAP to the PR with the adopted budget line-item highlighted. A copy of the quote is also attached when a quote has been attained. If no quote has been attained, CAP will assist with attaining a quote.
4) The workflow is determined by the price of the PR. A budgeted line-item type PR priced at or above $150,000 and under $350,000 will not require board approval in the workflow.
5) CAP generates a PO using the established procurement process.

Operations (OPS)

OPS: Physical Receipt

Delivery truck drops off M&S ordered by OPS to the WHSE and, rarely, HQA where it is accepted.

1) OPS is notified by the delivery location that the package has arrived and sends staff to retrieve it, or it is scheduled for delivery by WHSE staff.
2) If physically received at HQ, then OPS staff open the package, verify the contents, and take the delivery documentation from the packaging, otherwise the WHSE staff will open package, verify the contents, and take the delivery documentation from the packaging.
3) If physically received at HQ, then OPS staff upload all the delivery documentation into SharePoint/OneDrive.

OPS: SAP Receiving

Regarding M&S, OPS only completes SAP receiving for Staples and Amazon procurements.

1) OPS administrative staff access the delivery documentation in SharePoint/OneDrive.
2) Next, they access SAP and the enter the T-Code MIGO to perform receiving.
3) Upload the supporting documentation (packing slip, good receipt, receipt, or bill of lading) into SAP.
4) OPS administrative staff file original documentation to be kept for approximately one year.
5) SAP generates a goods receipt (GR) number for each completed SAP receiving transaction.

Facilities and Water Systems Programs (FWSP)

FWSP: Physical Receipt

1) When ordering, FWSP notes the delivery location, whether that is WHSE or a different location.
2) Delivery truck drops off M&S ordered by FWSP to the WHSE or other specified location where it is accepted.
3) Package is delivered to appropriate location.
   a. If delivered to WHSE, WHSE technician attaches neon label displaying the name of the WHSE technician who received it and PO number.
   b. If delivered to a location other than WHSE, the vendor label always lists the name of the IEUA staff that it is addressed to and sometimes lists the PO number.
4) FWSP is notified by the delivery location that the package has arrived and sends staff to retrieve it.
5) FWSP staff open the package, verify the contents, and take the delivery documentation from the packaging.
6) FWSP staff scan delivery documentation into shared department drive/SharePoint.

FWSP: SAP Receiving

Regarding M&S, FWSP only completes SAP receiving for Amazon, Staples, Airgas, and Home Depot procurements.

1) FWSP administrative staff access the delivery documentation in shared department drive/SharePoint.
2) Next, they access SAP and the enter the T-Code MIGO to perform receiving.

3) Upload the supporting documentation (i.e., packing slip, good receipt, bill of lading, etc.) into SAP.
4) SAP generates a GR number for each completed SAP receiving transaction

Maintenance (MNT)

MNT: Physical Receipt

1) Delivery truck drops off M&S to RP-2, RP-5, or CCWRF.
2) IEUA staff verify contents of package, sign for package, and accept package.
3) IEUA staff check for delivery documentation.
   a. If there is delivery documentation, IEUA staff take delivery documentation from the packaging.
   b. If there is no delivery documentation, a form can be used with necessary approval to perform SAP receiving.
4) IEUA staff scan either delivery documentation or form into the computer.
5) IEUA staff goes back to computer to retrieve scanned document and attach to email sent to MNT administrative staff.

MNT: SAP Receiving

MNT administrative staff will only perform SAP receiving for other locations: RP-2, RP-5, and Carbon Canyon Water Recycling Facility (CCWRF).

1) MNT administrative staff receive email with delivery documentation or approved form from field staff.
2) Next, they access SAP and the enter the T-Code MIGO to perform receiving.
3) Upload the supporting documentation (i.e., packing slip, good receipt, bill of lading, etc.) into SAP.
4) After scanned and attached in SAP, the original documentation is filed in a 6-month retention folder then discarded.
5) SAP generates a GR number for each completed SAP receiving transaction

Warehouse (WHSE)

WHSE: Physical and SAP Receiving

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

For inventory items WHSE will complete SAP receiving for – steps 3-7 below apply:

3) WHSE technician updates intake log with details for items and takes the receiving documents from the package.
4) WHSE technician scans delivery documentation into shared Agency drive and disposes of original copies.
5) WHSE administrative staff access scan of delivery documentation from shared Agency drive to perform SAP receiving and upload supporting documentation into SAP.
6) In lieu of storing the original documentation, the uploaded documentation is retained in SAP.
7) After SAP receiving is complete, SAP generates a goods receipt (GR) number.

For non-inventory items WHSE will complete SAP receiving for – steps 3-7 below apply:

3) Other department staff physically receives item according to their own department's physical receipt processes and procedures.
4) Other department staff ensure the delivery documentation is made available to WHSE administrative staff according to their own department's processes and procedures.
5) WHSE administrative staff access the delivery documentation received from the other department.
6) Original documentation storage follows the guidelines of the department physically receiving the document.
7) After SAP receiving is complete, SAP generates a goods receipt (GR) number.

For non-inventory items a different department will complete SAP receiving for – steps 3-4 below apply:

3) WHSE logs notes/details for items in SAP
4) Items are either picked up by or delivered to appropriate department. Other Department completes the rest of the receiving process according to their department's processes and procedures.

Accounting (ACCT): Accounts Payable (AP)

(This narrative was shared with staff for review, any comments provided were incorporated)

Payment Processing

Invoice Intake: As of 2/28/2022, the "Intake/Receiving" processes for the Agency's invoices are performed by two intern

staff.

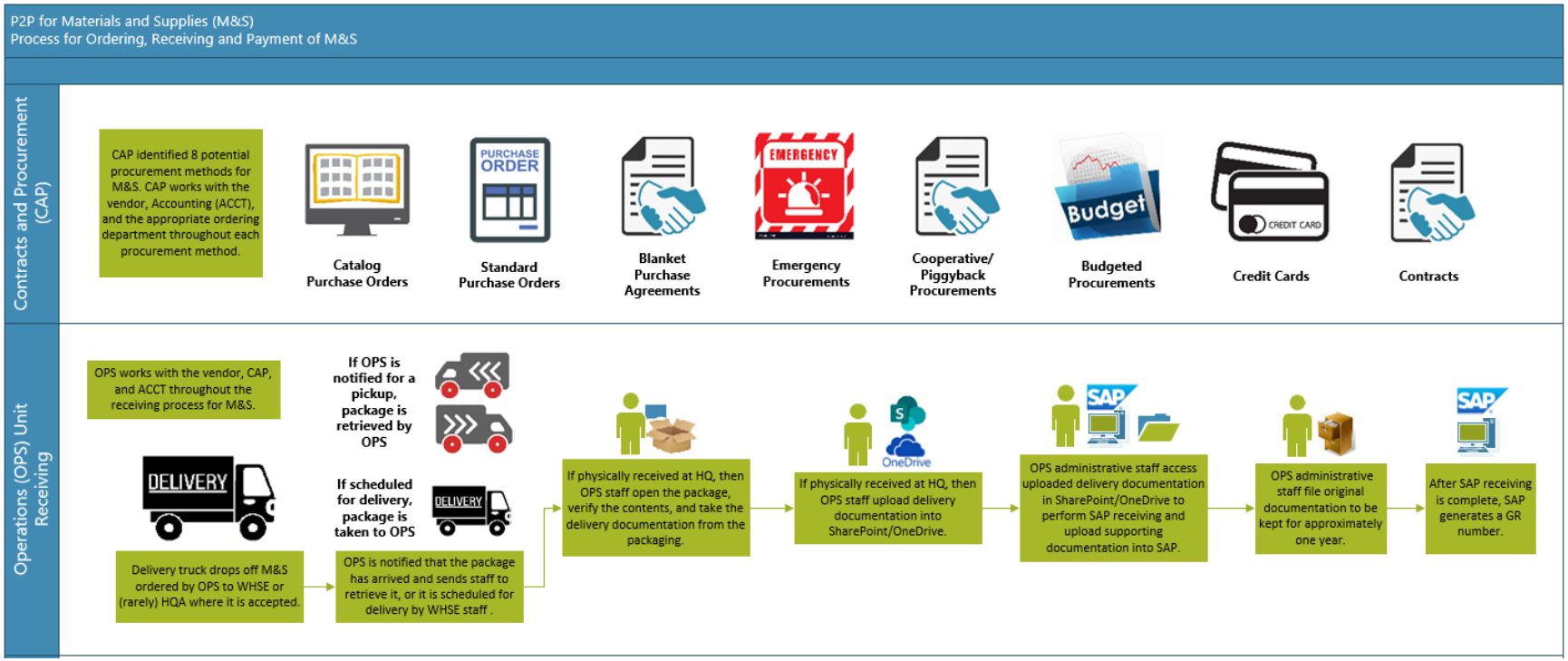
1) All invoices received by AP are processed and date-stamped:
    a. Hardcopy invoices are date-stamped, scanned daily, and cataloged.
    b. Electronic invoices are electronically stamped when received.
2) After the mail is opened or the email is downloaded, all incoming invoices are logged on a spreadsheet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

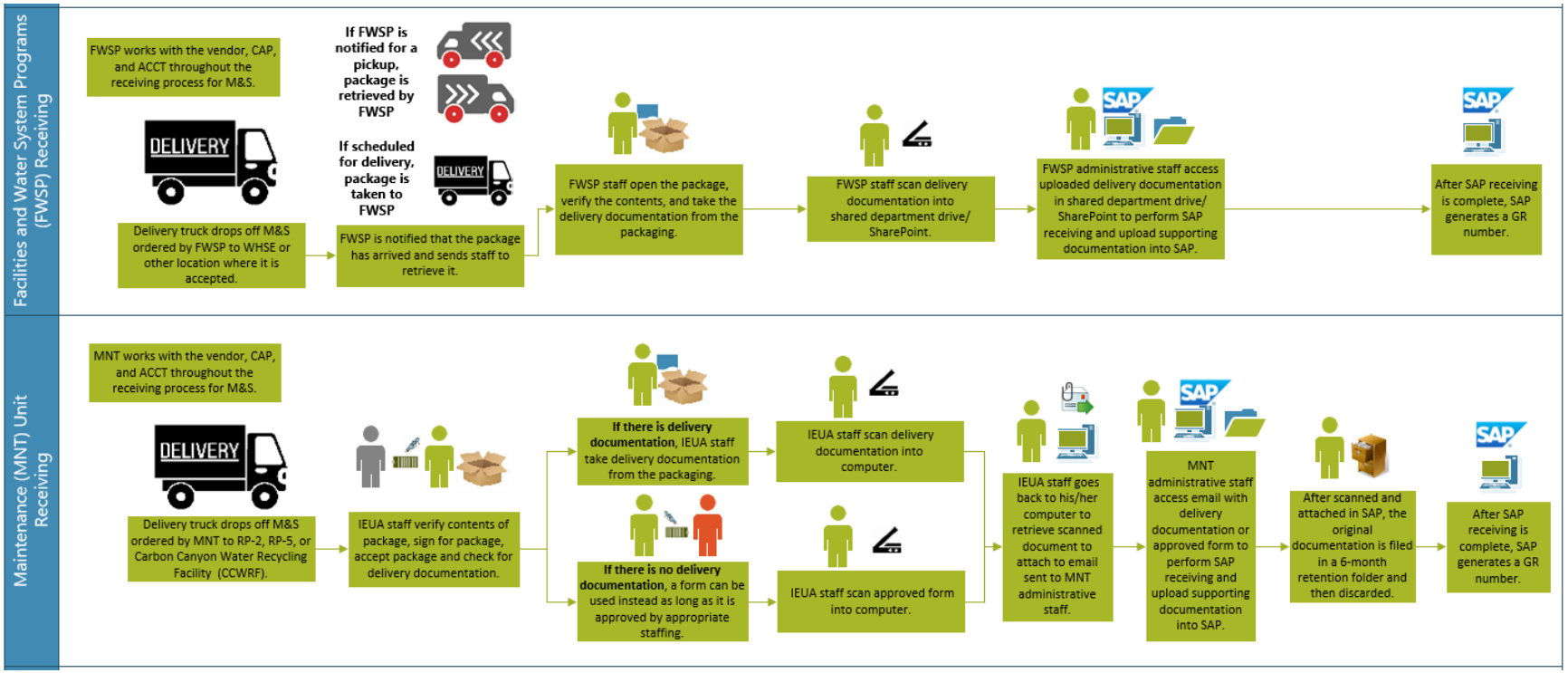
Payment:

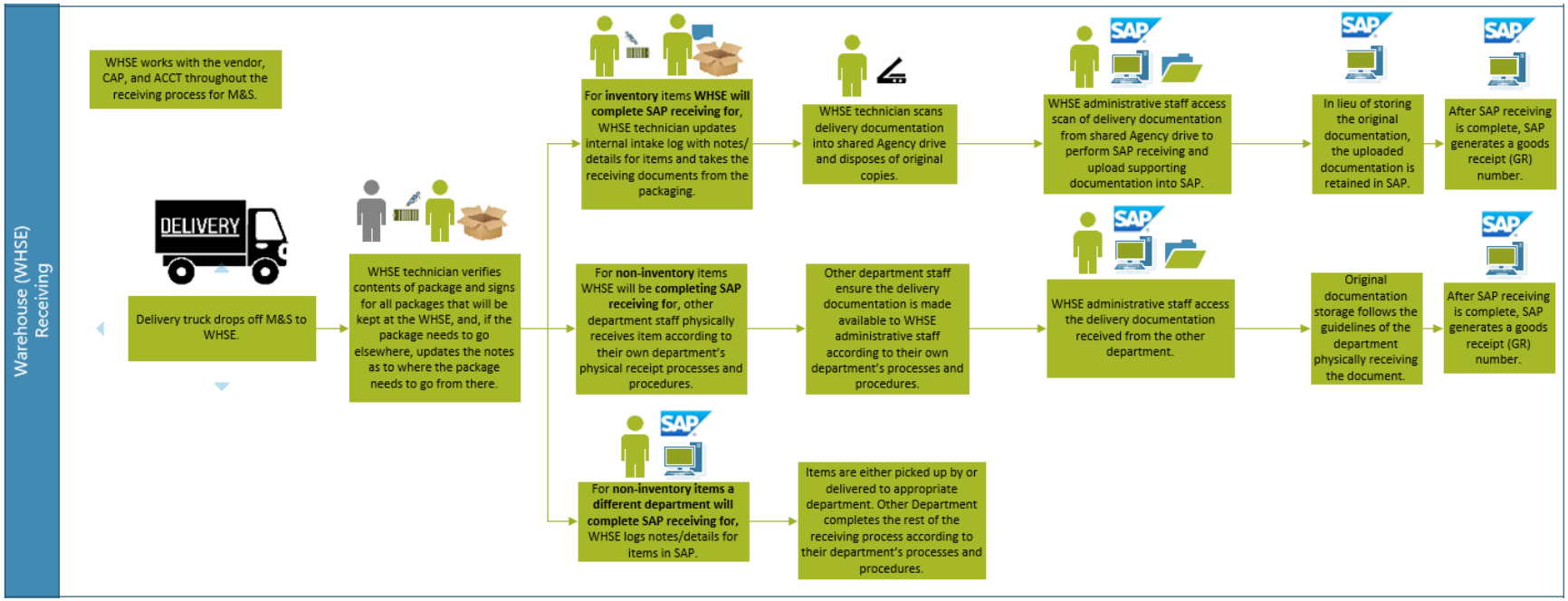
5) The starting point for processing M&S payments is the Goods Receipt/Invoice Receipt (GR/IR) report in SAP (transaction code: FBL3N, specified layout). The purpose for using this report is that it identifies all the transactions where the SAP receiving process has been performed. These transactions are waiting for the three-way match to be performed and for payment to be processed.
6) After the GR/IR report has been generated, the data/information is sorted to ensure that the oldest goods for which receiving has been performed appear first.
7) Using the data/information from the GR/IR report, AP staff process invoices based on their assigned vendors. Once AP staff have their assigned group/population of invoices, then AP staff will identify the vendor whose invoices will be processed. Invoice selection is based on:
    a. Oldest date
    b. Highest dollar amount
    c. Whether the vendor/invoice requires immediate attention
8) Once a transaction (line item) is selected for processing, AP staff will perform the three-way match which entails navigating approximately 8-10 screens in SAP to:
    a. Verify PO information
    b. Confirm invoice information
    c. Validate delivery documentation
    d. Match PO, invoice, and delivery documentation amounts
9) After the three-way match has been performed successfully, AP staff proceed 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 issue 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. The liability is recognized in SAP upon completion of the 3-way match.
10) Once an invoice has been set up, entered, and posted into the financial module (SAP) – SAP "flags" the item as "not due" or "overdue."
    a. 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.
    b. For an item "overdue," payment is automatically scheduled for the next payment cycle.
11) After all the invoice processing has been completed, AP staff determine which items will be paid in the SAP system.
12) ACCT Management will run a "Pre-list" on all the items that will be processed for payment. 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.
13) Once the "Pre-list" has been reviewed by Agency management and the ACCT Unit, then a final list is generated.
14) The 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 vendors.
15) AP emails remittance advice to vendors.

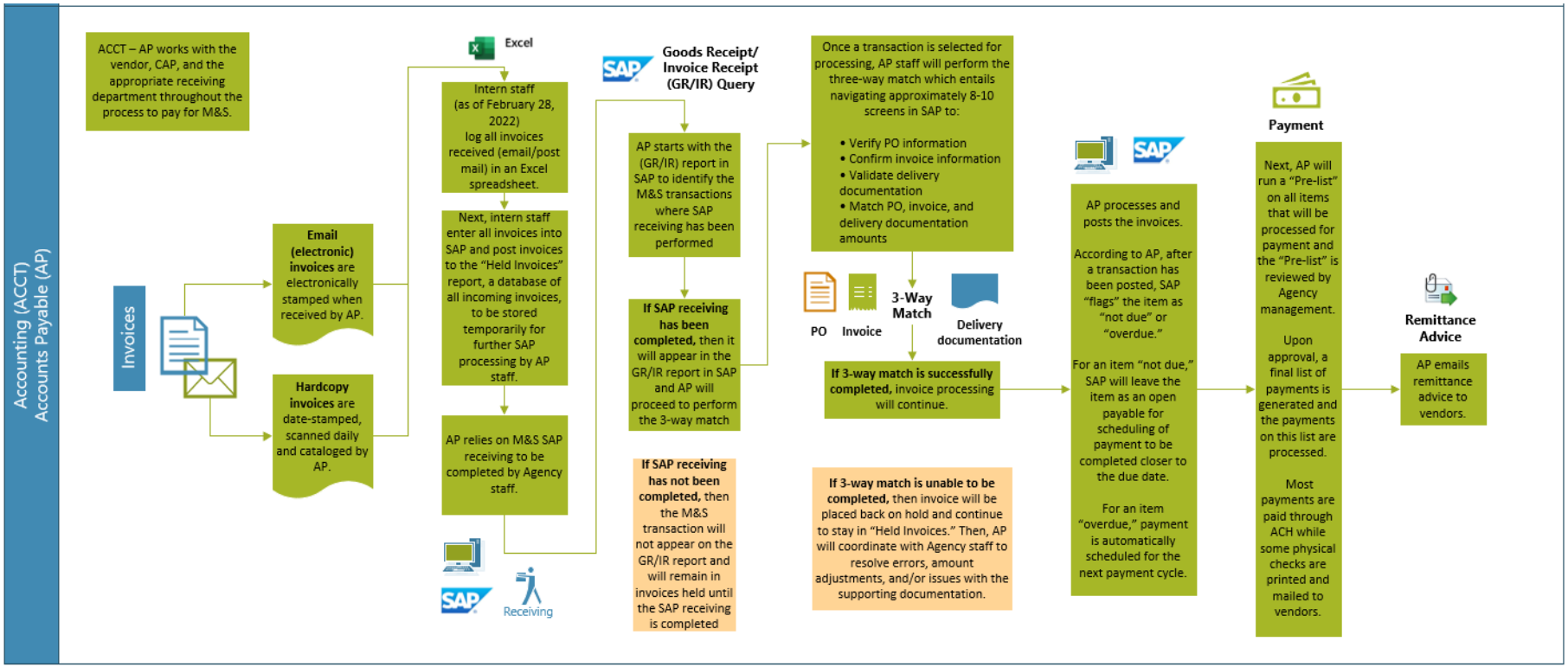
Process Flowchart - P2P Process for Materials and Supplies

The diagram on the this and the following pages provides the overview of the Procure-to-Pay (P2P) process for Materials and Supplies.




Facilities and Water System Programs (FWSP) Receiving
FWSP works with the vendor, CAP, and ACCT throughout the receiving process for M&S.
DELIVERY
Delivery truck drops off M&S ordered by FWSP to WHSE or other location where it is accepted.
If FWSP is notified for a pickup, package is retrieved by FWSP
If scheduled for delivery, package is taken to FWSP
DELIVERY
FWSP is notified that the package has arrived and sends staff to retrieve it.
FWSP staff open the package, verify the contents, and take the delivery documentation from the packaging.
FWSP staff scan delivery documentation into shared department drive/ SharePoint.
SAP
FWSP administrative staff access uploaded delivery documentation in shared department drive/ SharePoint to perform SAP receiving and upload supporting documentation into SAP.
SAP
After SAP receiving is complete, SAP generates a GR number.
Maintenance (MNT) Unit Receiving
MNT works with the vendor, CAP, and ACCT throughout the receiving process for M&S.
DELIVERY
Delivery truck drops off M&S ordered by MNT to RP-2, RP-5, or Carbon Canyon Water Recycling Facility (CCWRF).
IEUA staff verify contents of package, sign for package, accept package and check for delivery documentation.
If there is delivery documentation, IEUA staff take delivery documentation from the packaging.
IEUA staff scan delivery documentation into computer.
If there is no delivery documentation, a form can be used instead as long as it is approved by appropriate staffing.
IEUA staff scan approved form into computer.
IEUA staff goes back to his/her computer to retrieve scanned document to attach to email sent to MNT administrative staff.
SAP
MNT administrative staff access email with delivery documentation or approved form to perform SAP receiving and upload supporting documentation into SAP.
After scanned and attached in SAP, the original documentation is filed in a 6-month retention folder and then discarded.
SAP
After SAP receiving is complete, SAP generates a GR number.


Warehouse (WHSE) Receiving
WHSE works with the vendor, CAP, and ACCT throughout the receiving process for M&S.
DELIVERY
Delivery truck drops off M&S to WHSE.
WHSE technician verifies contents of package and signs for all packages that will be kept at the WHSE, and, if the package needs to go elsewhere, updates the notes as to where the package needs to go from there.
For inventory items WHSE will complete SAP receiving for, WHSE technician updates internal intake log with notes/ details for items and takes the receiving documents from the packaging.
WHSE technician scans delivery documentation into shared Agency drive and disposes of original copies.
WHSE administrative staff access scan of delivery documentation from shared Agency drive to perform SAP receiving and upload supporting documentation into SAP.
In lieu of storing the original documentation, the uploaded documentation is retained in SAP.
After SAP receiving is complete, SAP generates a goods receipt (GR) number.
For non-inventory items WHSE will be completing SAP receiving for, other department staff physically receives item according to their own department's physical receipt processes and procedures.
Other department staff ensure the delivery documentation is made available to WHSE administrative staff according to their own department's processes and procedures.
WHSE administrative staff access the delivery documentation received from the other department.
Original documentation storage follows the guidelines of the department physically receiving the document.
After SAP receiving is complete, SAP generates a goods receipt (GR) number.
For non-inventory items a different department will complete SAP receiving for, WHSE logs notes/details for items in SAP.
Items are either picked up by or delivered to appropriate department. Other Department completes the rest of the receiving process according to their department's processes and procedures.


Accounting (ACCT)
Accounts Payable (AP)
ACCT – AP works with the vendor, CAP, and the appropriate receiving department throughout the process to pay for M&S.
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 M&S SAP receiving to be completed by Agency staff.
SAP
Receiving
Goods Receipt/ Invoice Receipt (GR/IR) Query
AP starts with the (GR/IR) report in SAP to identify the M&S transactions where SAP receiving has been performed
If SAP receiving has been completed, then it will appear in the GR/IR report in SAP and AP will proceed to perform the 3-way match
If SAP receiving has not been completed, then the M&S transaction will not appear on the GR/IR report and will remain in invoices held until the SAP receiving is completed
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.
SAP
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.
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 while some physical checks are printed and mailed to vendors.
Remittance Advice
AP emails remittance advice to vendors.

Procure to Pay Process for Laboratory (Lab) Materials and Supplies (M&S)

Contracts & Procurement (CAP) (See processes for CAP summarized above for all other M&S)

Lab Receiving
(This narrative was shared with staff for review, any comments provided were incorporated)

Lab Unit: All Receiving Except Airgas

1) Delivery truck drops off materials and supplies (M&S) ordered by Lab to HQA, Lab or (rarely) Warehouse (WHSE) where it is accepted.
2) If package is sent to HQA, Lab is notified by HQA that package has arrived and sends staff to retrieve it. If package is sent directly to Lab, it is accepted there. If package is sent to WHSE, it is delivered from WHSE to Lab, where it is accepted.

If any delivery documentation was sent by the vendor – steps 3-8 below apply:

3) Lab staff open the package, verify the contents, and take the delivery documentation from the packaging. Lab staff record notes for receiving, initials and date, all on the delivery documentation.
4) Lab staff scan the delivery documentation into a scanned folder, rename the file and move it to the Lab shared department drive. Delivery documentation is then emailed to Engineering administrative staff on a weekly basis, unless many items were received in one day, at which point it is sent that day.
5) Lab staff file original documentation to be kept for approximately one year. After one year, the physical copies are forwarded to Records Management for storage and record retention.
6) Engineering administrative staff access the delivery documentation in the email and retrieve invoices from ACCT via SharePoint.
7) Engineering administrative staff must go through every delivery document to match the delivery documents to the corresponding invoices. This step can take a long period of time, especially when the delivery document to invoice match is not a one-to-one match (e.g., multiple delivery documents correspond to multiple invoices, multiple delivery documents correspond to one invoice, etc.) – as often happens with the Lab vendor Fisher Scientific.
8) Engineering administrative staff complete SAP receiving. After an SAP receiving entry is complete, SAP generates a goods receipt (GR) number.

If no delivery documentation was sent by the vendor – steps 3-7 below apply:

3) Once time is available after Lab staff realize that the package has arrived and no delivery documentation has been sent, Lab staff notify Engineering administrative staff that no delivery documentation was received and inform Engineering administrative staff regarding who needs to approve the invoice via DocuSign.
4) Engineering administrative staff retrieve invoices from ACCT via SharePoint and create a DocuSign request that sends the corresponding invoice to Lab staff to be approved via DocuSign.
5) Lab staff verify the order using the invoice, approve the invoice via DocuSign if all is correct, and DocuSign notifies Engineering administrative staff that it is signed.
6) Engineering administrative staff access the approved invoice.
7) Engineering administrative staff complete SAP receiving. After an SAP receiving entry is complete, SAP generates a goods receipt (GR) number.

Lab Unit: Airgas Non-Rental Receiving

1) Airgas sends full tanks to Lab, and Lab sends back empty tanks.
2) A hard copy receipt is provided to Lab staff. Lab staff verify the order and then initial and date the hard copy receipt.
3) Lab staff scan the hard copy receipt into a scanned folder, rename the file and move it to the Lab shared department drive. Hard copy receipts and delivery documentation from other orders are then the emailed to Engineering administrative staff on a weekly basis, unless many items were received in one day, at which point it is sent that day.
4) Lab staff file hard copy receipts with other delivery documentation to be kept for approximately one year. After one year, the physical copies are forwarded to Records Management for storage and record retention.

5) Engineering administrative staff access the hard copy receipts and delivery documentation from other orders in the email and retrieve invoices from ACCT via SharePoint.
6) Engineering administrative staff match the hard copy receipts to the corresponding invoices.
7) Engineering administrative staff complete SAP receiving. After an SAP receiving entry is complete, SAP generates a goods receipt (GR) number.

Lab Unit: Airgas Rental Receiving

1) Airgas sends rental tanks to the Lab.
2) Lab staff inform Engineering administrative staff regarding who needs to approve the invoice via DocuSign.
3) Engineering administrative staff retrieve invoices from ACCT via SharePoint and create a DocuSign request that sends the corresponding invoice to Lab staff to be to be approved via DocuSign.
4) Lab staff verify the order using the invoice, approve the invoice via DocuSign if all is correct, and DocuSign notifies Engineering administrative staff that it is signed.
5) Engineering administrative staff access the approved invoice.
6) Engineering administrative staff complete SAP receiving. After an SAP receiving entry is complete, SAP generates a goods receipt (GR) number.

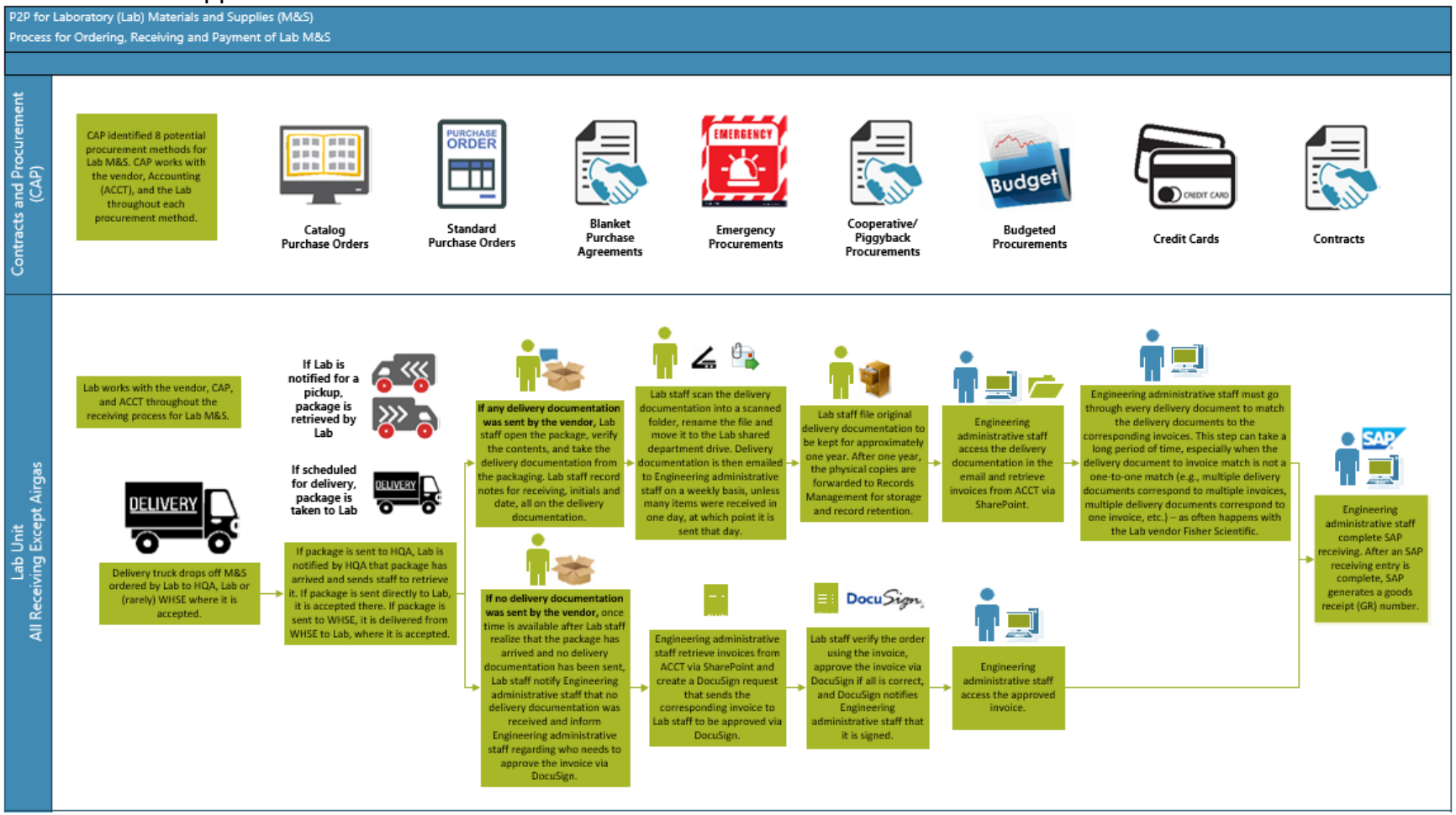
Accounting (ACCT): Accounts Payable (AP)

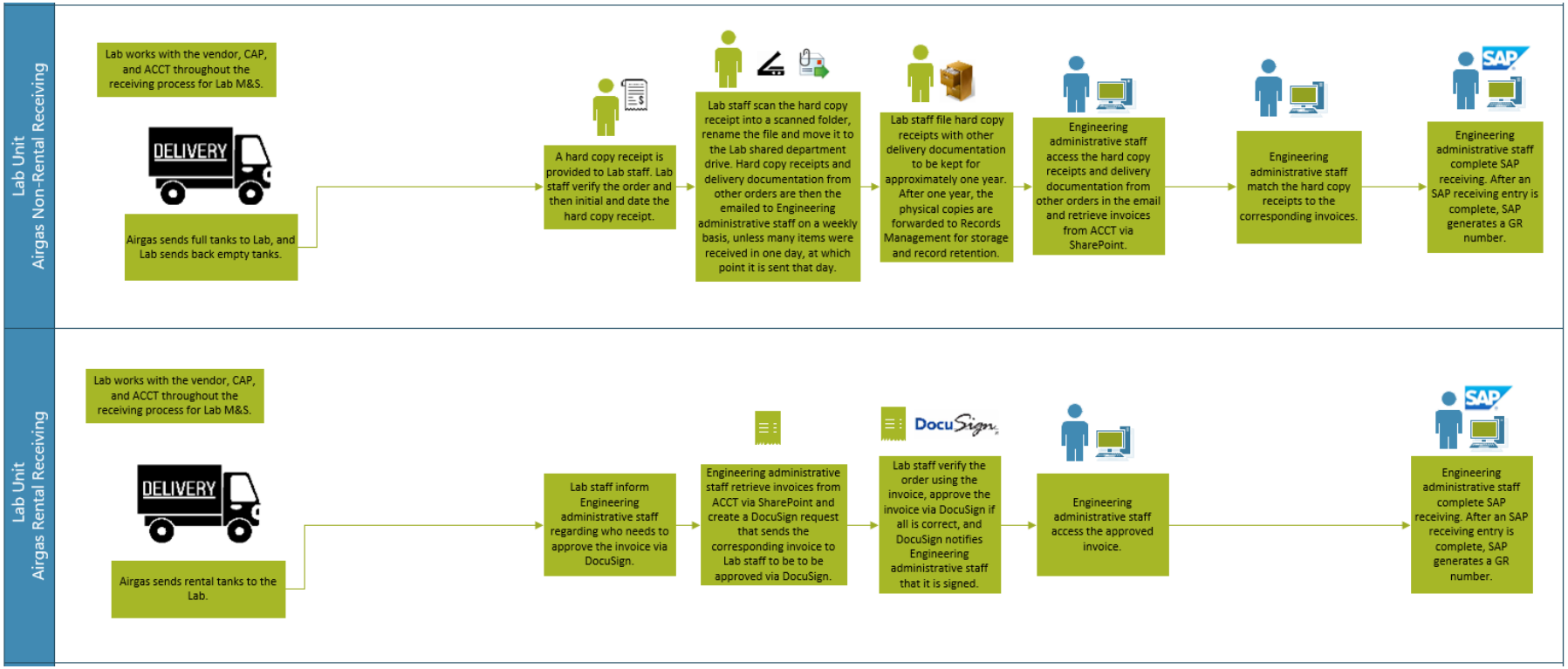
(See processes for Accounting summarized above for all other M&S)

(This narrative was shared with staff for review, any comments provided were incorporated)

Process Flowchart - P2P Process for Lab Materials and Supplies

The diagram on the this and the following pages provides the overview of the Procure-to-Pay (P2P) process for Lab Materials and Supplies.




Lab Unit
Airgas Non-Rental Receiving
Lab works with the vendor, CAP, and ACCT throughout the receiving process for Lab M&S.
DELIVERY
Airgas sends full tanks to Lab, and Lab sends back empty tanks.
A hard copy receipt is provided to Lab staff. Lab staff verify the order and then initial and date the hard copy receipt.
Lab staff scan the hard copy receipt into a scanned folder, rename the file and move it to the Lab shared department drive. Hard copy receipts and delivery documentation from other orders are then the emailed to Engineering administrative staff on a weekly basis, unless many items were received in one day, at which point it is sent that day.
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Lab works with the vendor, CAP, and ACCT throughout the receiving process for Lab M&S.
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Airgas sends rental tanks to the Lab.
Lab staff inform Engineering administrative staff regarding who needs to approve the invoice via DocuSign.
Engineering administrative staff retrieve invoices from ACCT via SharePoint and create a DocuSign request that sends the corresponding invoice to Lab staff to be to be approved via DocuSign.
DocuSign
Lab staff verify the order using the invoice, approve the invoice via DocuSign if all is correct, and DocuSign notifies Engineering administrative staff that it is signed.
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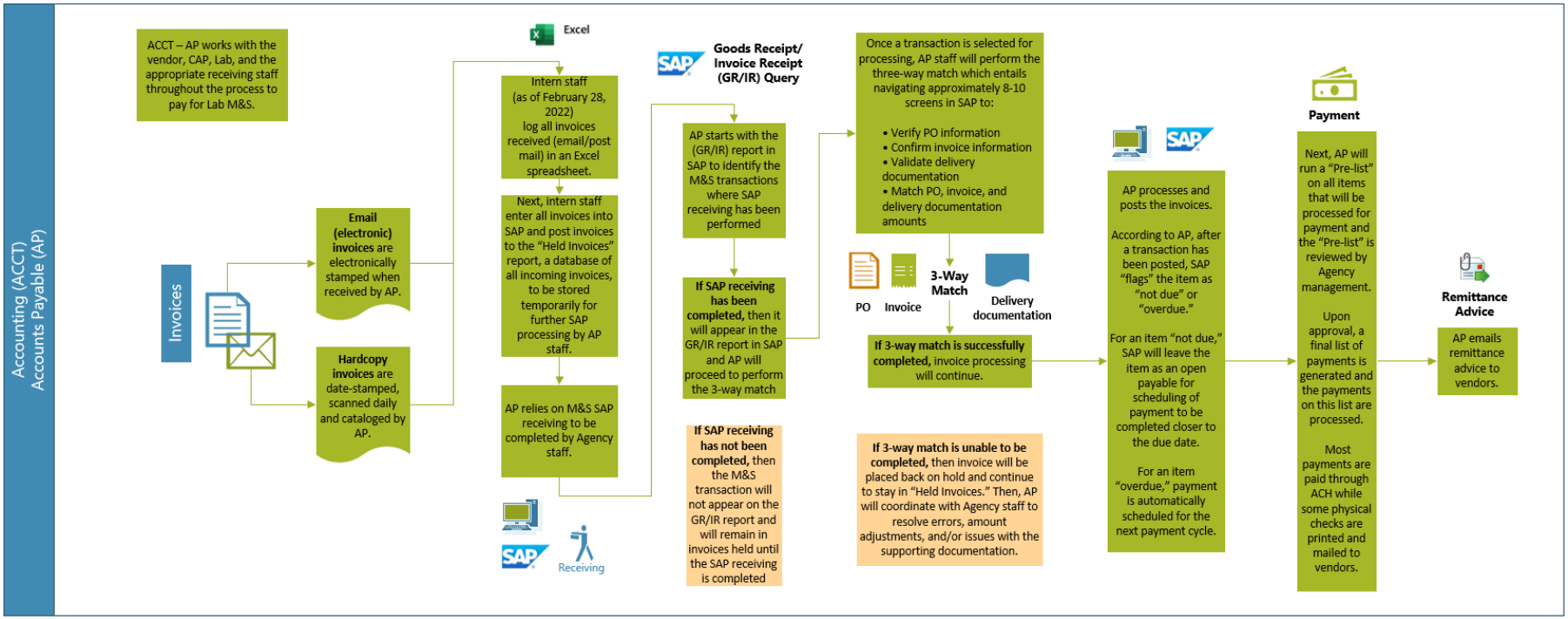
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Upon approval, a final list of payments is generated and the payments on this list are processed.
Most payments are paid through ACH while some physical checks are printed and mailed to vendors.
Remittance Advice
AP emails remittance advice to vendors.

Detailed Audit Testing and Analysis

Using the Accounts Payable Monitoring Report for fiscal year 2021-22 (as of September 13, 2022). IA judgmentally selected a total of thirty-five (35) invoices/transactions that were recorded in SAP as paid between 12 and 340 days late (after the invoice due date in SAP). IA applied testing procedures to evaluate the 35 items selected. IA calculated different metrics to determine the timeliness of receiving and payments. IA's review showed the following observations (findings and observation have been used to create the recommendations included in the matrix above):

Overall

Late Payment

- 33 of 35 or 94% of items selected were actually paid late (after the invoice due date). (Sample No. 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 34, 35)

Cancelled/Data Entry Error

- 1 of 35 or 3% of items selected was incorrectly listed as a late payment in SAP due to a data entry error when it was not actually a late payment according to the source document. (Sample No. 33)

- 1 of 35 or 3% of items selected appears to be a duplicate transaction that was created and cancelled after payment after the late payment was issued. (Sample No. 6)

SAP Receiving

Late SAP Receiving (Longer than 30 Days)

- 11 of the 35 or 31% of items selected were received in SAP more than 30 days after the delivery date. (Sample No. 2, 5, 8, 18, 20, 24, 25, 26, 27, 31, 32)

No SAP Receiving Information

- 3 of the 35 or 9% of items selected did not show SAP receiving information under the listed PO number and were paid via check request (VM). (Sample No. 15, 21, 22). In two of the three instances it appears a check request was issued to remove a credit hold by paying off the balance. (Sample No. 21, 22)

Processes and Procedures and/or Accuracy of Data

- 1 of 35 or 3% of items selected showed the wrong invoice and delivery document attached to the goods receipt number in the material management module in SAP while only the correct invoice was attached in the financial module. (Sample. No. 18). Supporting documentation corresponding to the order should be attached in the materials management module when SAP receiving is completed.

Payment Processing

Late Payment Processing (Longer than 30 Days)

- **18 of 35 or 51% of items selected were processed for payment more than 30 days after SAP receiving was completed (not including partial shipments):**
  - 16 of the 35 or 46% of items selected were processed for payment more than 30 days after SAP receiving was completed and were for goods received (not including partial shipments). (Sample No. 1, 4, 7, 9, 10, 11, 12, 13, 16, 17, 19, 23, 27, 29, 30, 32)

  - 2 of the 35 or 6% of items selected, included billing for services, and showed more than 30 days between the SAP receiving process and the date of payment processing by AP staff in SAP. (Sample No. 34, 35).

Late Invoice Acknowledgement (Longer than 30 Days)

- 7 of the 35 or 20% of items selected showed longer than 30 days between the invoice date and the date AP staff documented on the invoice that they acknowledged the receipt of the invoice. (Sample No. 1, 8, 11, 19, 20, 29, 34)

Late Payment After Processing (Longer than 30 Days)

- 1 of the 35 or 3% of items selected showed that the payment date in SAP was more than 30 days after the date the payment was processed in SAP. (Sample No. 27).

Processes and Procedures and/or Accuracy of Data

- 7 of the 35 or 20% of items selected showed different payment terms on the invoice than the payment terms entered into SAP. (Sample No. 3, 5, 24, 25, 26, 34, 35)

- 2 of the 35 or 6% of items selected showed that the document date (invoice date) was inputted into SAP incorrectly (Sample No. 24, 33). Sample No. 33 was incorrectly listed as a late payment in SAP due to this data entry error when it was not actually a late payment according to the source document.

Delayed Shipments and/or Credits

- 2 of 35 or 6% of items selected were paid late (after the invoice due date) and included partial shipments of the order. (Sample No. 3, 14). It appears that accounting does not have procedures in place to process partial payment in orders where partial receiving is completed for partial shipments. Therefore, this may be a reason for a delay in timely receiving and payment.

Background Information

The units evaluated were Operations, Maintenance, Warehouse and Facilities and Water System Programs which fall under the Technical Resources Division.

Top 10 Materials and Supplies Vendors Based on Payment Totals From the Agency to Materials and Supplies Vendors Fiscal Year 2021-2022

Vendor	Category	Payment Amount
ROYAL INDUSTRIAL SOLUTIONS	WHSE, OPS, MNT	$537,272
AGILENT TECHNOLOGIES	LAB	341,595
DELL MARKETING L P	MNT	205,570
HACH COMPANY	WHSE, MNT, LAB	194,283
GRAINGER INC	WHSE, OPS, MNT, LAB	182,210
CINTAS CORPORATION	OPS	166,445
VAUGHAN'S INDUSTRIAL REPAIR CO INC	MNT	153,805
CS-AMSCO	MNT	129,791
FISHER SCIENTIFIC	WHSE, OPS, LAB	128,410
JCE EQUIPMENT INC	MNT	116,580

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). The "Category" column represents the unit(s) that identified the vendor. Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figures are based on the amounts remitted to vendors (ZA & ZC types on the AP Monitoring Report). The amounts include goods and services purchased with the identified materials and supplies vendors.

Payment Timeliness for Materials and Supplies Vendors Fiscal Year 2021-2022

Timeliness	Number (#) of Transactions	Percentage of Transactions
On Time	1043	29%
Late	2532	71%
Total	**3575**	**100%**

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The number of transaction figures are based on the PO and non-PO invoices (VI & VM types on the AP Monitoring Report). The transactions include goods and services transactions with the identified materials and supplies vendors.

Number of Transactions with Materials and Supplies Vendors by Dollar Amount Fiscal Year 2021-2022			
Amount Category	**Number of Transactions**	**Percentage**	**Total Dollar Amount**
Over $10,000	69	2%	$2,465,124
Over $3,500 up to $10,000	172	5%	946,093
Over $1,000 up to $3,500	542	15%	981,837
Over $500 up to $1,000	422	12%	290,225
From $0 up to $500	2,370	66%	408,091
Total	**3,575**	**100%**	**$5,091,369**

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figures are based on the PO and non-PO invoice amounts (VI & VM types on the AP Monitoring Report). The amounts and transactions include goods and services transactions with the identified materials and supplies vendors.

Water Quality Laboratory

The Lab's mission statement:

> To provide high quality, reliable, analytical support to the Agency in its efforts to protect the public's health and environment in accordance with Environmental Laboratory Accreditation Program (ELAP) Quality Assurance/ Quality Control requirements.

Staffing for the Lab is at sixteen (16) personnel (14 full-time equivalents and two (2) limited-term positions) as of November 8, 2022.

Laboratory's – Materials & Supplies purchased

The Lab purchases many different types of materials and supplies to conduct day-to-day business operations and perform water quality testing. Below are some examples of materials and supplies that are purchased by the Lab:

These materials and supplies and many other different kinds are either delivered to:

- IEUA's Headquarters Building A (front receptionist) and picked up by Lab staff
- Lab's physical location (behind Headquarters Building B), or
- Agency's Warehouse, and then delivered to Lab's physical location.

Receiving & Invoice Analysis for Laboratory's Goods and Services

For all goods, materials, supplies procured by the Lab, 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.) and the professional services were in fact performed.

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*. IA ran the GRIPT for the ***Laboratory only***, and the table below shows the quantity and aging of the receiving transactions for ***materials and supplies only***:

Water Quality Laboratory Only **Receiving function in SAP – Materials and Supplies** **(GL Account Category)** ***(Count of Distinct GR Documents with Days to Receive)*** **Data as of November 21, 2022**				
Number of days to Receive in SAP	**FY 2020-21**	**%**	**FY 2021-22**	**%**
1-7 days	218	61%	76	20%
8-14 days	74	21%	54	14%
15-30 days	52	15%	120	31%
31-60 days	8	2%	32	8%
61-90 days	4	1%	20	5%
90 or more days	0	0%	81	21%
Totals	***356***		***383***	***100%***

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

From the GRIPT report, the data shows 82% for FY2021 and 34% for FY2022, of all purchases were received within 14 days. For the Lab's Materials and Supplies, the receiving decreased from one fiscal year to the next year.

Assuming payment terms are net 30 days, *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:

Water Quality Laboratory Only **Vendor Payment Processing in SAP - Materials and Supplies** **(GL Account Category)** ***(Count of Vendor invoices Paid and Past Due)*** **Data as of November 21, 2022**				
	FY 2020-21		**FY 2021-22**	
	No. of Invoices	**Percentage of Invoices**	**No. of Invoices**	**Percentage of Invoices**
Paid on Time	236	72%	56	16%
Past due 1-30 days (paid one month late)	69	21%	90	26%
Past due 31-60 days (paid 2 months late)	18	5%	50	14%
Past due 61-90 days (paid 3 months late)	3	1%	55	16%
Past due over 90 days (paid 4 months late)	4	1%	95	27%
Totals	***330***	***100%***	***346***	***100%***

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

Using the data from the GRIPT report, the results note that 72% in FY2021 and 16% in FY2022, of all purchases for the materials and supplies were paid on time and the remainder were paid late. The payment processes for the Lab's Materials and Supplies decreased from one fiscal year to the next by 56%.

Attachment 1

Procure to Pay Processes for Materials and Supplies
Items Selected for Detailed Analysis
Fiscal Year 2021-2022

Sample Number	Vendor Name	Amount	PO Number	Goods Receipt Number	Invoice #	Invoice Date (From source documentation when available and different from SAP, otherwise from SAP)	Date Invoice Acknowledged by AP (If information was available)	Delivery Date (From source documentation when available, otherwise from SAP)	Date Receiving was Performed in SAP	Date Payment Processed by AP staff	Date Paid per SAP	Payment Terms (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days Between Delivery Date and Receiving in SAP	Number of Days from the Invoice Date to the Date AP Acknowledged Receipt of Invoice (If information was available)	Number of Days Between Completion of SAP Receiving and Date Payment Processed by AP Staff	Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP	Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days from the Invoice Date to the Date Paid	Number of Days from the Delivery Date to the Date Paid
						(A)	(B)	(C)	(D)	(E)	(F)	(G)	(D) - (C)	(B) - (A)	(E) - (D)	(F) - (E)	(F) - [(A) + (G)]	(F) - (A)	(F) - (C)
1	CITY TOOL WORKS INC	$280.00	4500038767	5000186603	018700	9/14/2021	7/13/2022	9/13/2021	9/14/2021	7/13/2022	7/14/2022	30	1	302	302	1	273	303	304
2	CS-AMSCO	$50,011.53	4500037899	5000185692	16997	7/12/2021	7/12/2021	7/14/2021	8/18/2021	8/25/2021	8/26/2021	30	35	0	7	1	15	45	43
3	DELL MARKETING LP	$38,408.53	4500039813	5000193611	10574956783	4/7/2022	N/A	3/7/2022	3/8/2022	7/25/2022	7/26/2022	45	1	N/A	139	1	65	110	141
				5000194890				4/5/2022	4/6/2022				1	N/A	110	1			112
4	DXP ENTERPRISES INC	$49,742.41	4500037474	5000183541	52160378	5/28/2021	N/A	6/11/2021	6/14/2021	8/12/2021	8/12/2021	30	3	N/A	59	0	46	76	62
5	GRAINGER INC	$171.33	4500038533	5000197083	9015584775	8/9/2021	8/10/2021	8/12/2021	6/1/2022	6/2/2022	6/7/2022	45	293	1	1	5	257	302	299
6	RSD	$4,391.55	4500036245	Cancelled	55338681-01	8/4/2021	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled	30	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled
7	SHANLEY PUMP & EQUIPMENT INC	$23,895.00	4500039667	5000193217	0049915-IN	2/17/2022	2/23/2022	2/23/2022	2/24/2022	4/25/2022	4/26/2022	30	1	6	60	1	38	68	62

Sample Number	Vendor Name	Amount	PO Number	Goods Receipt Number	Invoice #	Invoice Date (From source documentation when available and different from SAP, otherwise from SAP)	Date Invoice Acknowledged by AP (If information was available)	Delivery Date (From source documentation when available, otherwise from SAP)	Date Receiving was Performed in SAP	Date Payment Processed by AP staff	Date Paid per SAP	Payment Terms (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days Between Delivery Date and Receiving in SAP	Number of Days from the Invoice Date to the Date AP Acknowledged Receipt of Invoice (If information was available)	Number of Days Between Completion of SAP Receiving and Date Payment Processed by AP Staff	Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP	Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days from the Invoice Date to the Date Paid	Number of Days from Delivery Date to Payment
						(A)	(B)	(C)	(D)	(E)	(F)	(G)	(D) - (C)	(B) - (A)	(E) - (D)	(F) - (E)	(F) - [(A) + (G)]	(F) - (A)	(F) - (C)
8	WEST COAST SAFETY SUPPLY CO INC	$87,890.58	4500037761	5000186216	3670585	6/30/2021	8/31/2021	6/30/2021	9/1/2021	9/8/2021	9/9/2021	30	63	62	7	1	41	71	71
9	AMAZON BUSINESS	$3,640.97	4500039014	5000188399	144T-MVTQ-LL3V	10/31/2021	11/1/2021	11/2/2021	11/2/2021	5/3/2022	5/5/2022	30	0	1	182	2	156	186	184
10	AMAZON BUSINESS	$440.37	4500038579	5000186187	1FKW-YVDJ-MJDP	8/18/2021	8/18/2021	8/31/2021	8/31/2021	3/31/2022	3/31/2022	30	0	0	212	0	195	225	212
11	CUMMINS SALES AND SERIVCE	$5,137.47	4500038024	5000185636	X5-49056	7/20/2021	9/17/2021	7/21/2021	8/17/2021	9/30/2021	10/4/2021	30	27	59	44	4	46	76	75
12	HACH COMPANY	$2,553.71	4500039381	5000191026	12816887	12/30/2021	N/A	1/5/2022	1/6/2022	5/25/2022	5/26/2022	30	1	N/A	139	1	117	147	141
13	HARRINGTON INDUSTRIAL PLASTICS LLC	$5,266.87	4300000007	5000187572	012L4144	10/8/2021	10/11/2021	10/8/2021	10/11/2021	12/23/2021	12/23/2021	30	3	3	73	0	46	76	76
14	HARRINGTON INDUSTRIAL PLASTICS LLC	$187.18	4300000007	5000185626	012L3053	8/9/2021	8/9/2021	8/9/2021	8/17/2021	7/27/2022	7/28/2022	30	8	0	344	1	323	353	353
				5000195804				4/27/2022	4/28/2022				1	0	90	1			92

Sample Number	Vendor Name	Amount	PO Number	Goods Receipt Number	Invoice #	Invoice Date (From source documentation when available and different from SAP, otherwise from SAP)	Date Invoice Acknowledged by AP (If information was available)	Delivery Date (From source documentation when available, otherwise from SAP)	Date Receiving was Performed in SAP	Date Payment Processed by AP staff	Date Paid per SAP	Payment Terms (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days Between Delivery Date and Receiving in SAP	Number of Days from the Invoice Date to the Date AP Acknowledged Receipt of Invoice (If information was available)	Number of Days Between Completion of SAP Receiving and Date Payment Processed by AP Staff	Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP	Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days from the Invoice Date to the Date Paid	Number of Days from the Delivery Date to the Date Paid
						(A)	(B)	(C)	(D)	(E)	(F)	(G)	(D) - (C)	(B) - (A)	(E) - (D)	(F) - (E)	(F) - [(A) + (G)]	(F) - (A)	(F) - (C)
15	HASCO OIL COMPANY,INC.	$10,069.01	4300000064	No receiving information	0246979-IN	6/1/2022	6/6/2022	No receiving information	No receiving information	8/3/2022	8/4/2022	30	No receiving information	5	No receiving information	1	34	64	No receiving information
16	HASCO OIL COMPANY,INC.	$9,616.35	4300000064	5000190057	0243626-IN	12/6/2021	12/8/2021	12/7/2021	12/8/2021	1/31/2022	2/3/2022	30	1	2	54	3	29	59	58
17	MCMASTER-CARR SUPPLY CO	$2,982.17	4500038950	5000187698	66466843	10/11/2021	10/12/2021	10/12/2021	10/13/2021	12/7/2021	12/9/2021	30	1	1	55	2	29	59	58
18	MCMASTER-CARR SUPPLY CO	$2,367.14	4300000045	5000192440	64650619	9/8/2021	9/9/2021	9/8/2021	2/3/2022	2/7/2022	2/10/2022	30	148	1	4	3	125	155	155
19	NAPA GENUINE PARTS COMPANY	$2,999.75	4300000010	5000185282	4854-340673	7/6/2021	10/6/2021	7/6/2021	8/2/2021	10/6/2021	10/7/2021	30	27	92	65	1	63	93	93
20	NAPA GENUINE PARTS COMPANY	$111.75	4300000049	5000187235	4584-341739	7/20/2021	10/6/2021	7/20/2021	9/30/2021	10/7/2021	10/7/2021	30	72	78	7	0	49	79	79
21	AIRGAS USA LLC	$673.69	4500037047	No receiving information	9114857231	6/28/2021	6/30/2021	No receiving information	No receiving information	8/17/2022	6/30/2022	30	No receiving information	2	No receiving information	-48[1]	337	367	No receiving information
22	AIRGAS USA LLC	$196.88	4500033433	No receiving information	9114928076	6/30/2021	N/A	No receiving information	No receiving information	8/17/2022	6/30/2022	30	No receiving information	N/A	No receiving information	-48[1]	335	365	No receiving information

Sample Number	Vendor Name	Amount	PO Number	Goods Receipt Number	Invoice #	Invoice Date (From source documentation when available and different from SAP, otherwise from SAP)	Date Invoice Acknowledged by AP (If information was available)	Delivery Date (From source documentation when available, otherwise from SAP)	Date Receiving was Performed in SAP	Date Payment Processed by AP staff	Date Paid per SAP	Payment Terms (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days Between Delivery Date and Receiving in SAP	Number of Days from the Invoice Date to the Date AP Acknowledged Receipt of Invoice (If information was available)	Number of Days Between Completion of SAP Receiving and Date Payment Processed by AP Staff	Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP	Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days from the Invoice Date to the Date Paid	Number of Days from the Delivery Date to the Date Paid
						(A)	(B)	(C)	(D)	(E)	(F)	(G)	(D) - (C)	(B) - (A)	(E) - (D)	(F) - (E)	(F) - [(A) + (G)]	(F) - (A)	(F) - (C)
23	AIRGAS USA LLC	$1,069.85	4500037047	5000189969	9120024239	11/19/2021	11/24/2021	11/19/2021	12/6/2021	2/25/2022	3/3/2022	30	17	5	81	6	74	104	104
24	FISHER SCIENTIFIC	$1,515.42	4500036484	5000198667	9260676	6/8/2021	6/9/2021	7/23/2021	6/30/2022	7/5/2022	7/5/2022	45	342	1	5	0	347	392	347
25	FISHER SCIENTIFIC	$8,078.56	4300000060	5000194591	4944024	7/20/2021	N/A	7/20/2021	3/29/2022	4/21/2022	4/21/2022	45	252	N/A	23	0	230	275	275
26	FISHER SCIENTIFIC	$164.80	4500036484	5000198951	3797005	7/7/2021	7/8/2021	8/21/2021	7/7/2022	7/11/2022	7/12/2022	45	320	1	4	1	325	370	325
27	DOWNS ENERGY	$1,738.97	4300000002	5000185453	0281997-IN	6/24/2021	6/28/2021	6/24/2021	8/10/2021	11/18/2021	12/31/2021	30	47	4	100	43	160	190	190
28	DOWNS ENERGY	$9,659.10	4300000055	5000194477	0294117-IN	3/7/2022	3/9/2022	3/7/2022	3/29/2022	4/18/2022	4/18/2022	30	22	2	20	0	12	42	42
29	INDUSTRIAL RUBBER & SUPPLY INC	$1,187.08	4500038393	5000185106	51190	7/9/2021	8/19/2021	7/8/2021	7/26/2021	10/12/2021	10/14/2021	30	18	41	78	2	67	97	98
30	INLAND EMPIRE WINDUSTRIAL CO	$2,531.46	4500040261	5000198385	04004401	6/9/2022	6/14/2022	6/29/2022	6/29/2022	8/23/2022	8/23/2022	30	0	5	55	0	45	75	55

Sample Number	Vendor Name	Amount	PO Number	Goods Receipt Number	Invoice #	Invoice Date (From source documentation when available and different from SAP, otherwise from SAP)	Date Invoice Acknowledged by AP (If information was available)	Delivery Date (From source documentation when available, otherwise from SAP)	Date Receiving was Performed in SAP	Date Payment Processed by AP staff	Date Paid per SAP	Payment Terms (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days Between Delivery Date and Receiving in SAP	Number of Days from the Invoice Date to the Date AP Acknowledged Receipt of Invoice (If information was available)	Number of Days Between Completion of SAP Receiving and Date Payment Processed by AP Staff	Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP	Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date (From source documentation when available and different from SAP, otherwise from SAP)	Number of Days from the Invoice Date to the Date Paid	Number of Days from the Delivery Date to the Date Paid
						(A)	(B)	(C)	(D)	(E)	(F)	(G)	(D) - (C)	(B) - (A)	(E) - (D)	(F) - (E)	(F) - [(A) + (G)]	(F) - (A)	(F) - (C)
31	INLAND EMPIRE WINDUSTRIAL CO	$300.23	4300000005	5000198101	038487 01	2/15/2022	2/17/2022	2/15/2022	6/23/2022	6/29/2022	6/30/2022	30	128	2	6	1	105	135	135
32	RBM LOCK & KEY	$379.11	4500039840	5000194035	2145186	1/26/2022	N/A	1/26/2022	3/21/2022	5/5/2022	5/5/2022	30	54	N/A	45	0	69	99	99
33	RSD	$6,924.02	4300000013	5000197095	55362276-00	5/23/2022	5/25/2022	5/20/2022	6/2/2022	6/2/2022	6/7/2022	30	13	2	0	5	-15[2]	15	18
34	CINTAS CORPORATION **(Service Included)**	$2,810.69	4500038422	5000185125	4089226406	7/7/2021	11/2/2021	Service	7/22/2021	11/16/2021	11/18/2021	34	Service	118	117	2	100	134	Service
35	CINTAS CORPORATION **(Service Included)**	$1,104.40	4500038422	5000185439	4092083803	8/5/2021	N/A	Service	8/10/2021	2/2/2022	2/3/2022	36	Service	N/A	176	1	146	182	Service

[1] Negative values from Sample No. 21 and 22 for "**Number of Days Between Date Payment Processed by AP Staff and Date Paid per SAP**" are due to backdating of the "Date Paid" when the payment was processed by AP staff after the "Date Paid."

[2] -15 entry from Sample No. 33 in "**Number of Days for the Agency to Pay for the Invoice AFTER the Invoice Due Date**" column was originally listed as a late payment in SAP due to a data entry error of the Doc. Date (invoice date). Upon analysis, it was discovered that, according to the invoice date on the source document, this transaction was not actually a late payment.

Source: SAP (Agency's Financial System) and Accounts Payable Monitoring Report for Fiscal Year 2022 (as of September 13, 2022)

Inland Empire Utilities Agency
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Review of Procure to Pay Processes for Materials and Supplies

Teresa Velarde

Manager of Internal Audit

December 12, 2022

P2P Processes for Materials and Supplies (M&S)

- June 2022 – Interim Audit Report for P2P M&S
- September 2022 – IA Status Update for P2P M&S
- December 2022 – Final Audit Report for P2P M&S

New Updates Since the Interim Report and Status Update:

- Included the Laboratory processes, flowchart, vendors and transaction review
- Determined the total amount paid by the Agency to the 119 M&S vendors in FY 2021-2022 to be approximately $4.2 million dollars (including Laboratory vendors)[1]
- Documented processes for the 6 units involved in the P2P M&S processes,
- Judgmentally selected M&S transactions and applied several audit procedures
- Finalized 19 audit observations and recommendations for consideration

[1] Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figure is based on the amounts remitted to vendors (ZA & ZC types on the AP Monitoring Report). This amount includes goods and services purchased with the identified materials and supplies vendors.

P2P Processes for Materials and Supplies

Payments to Materials and Supplies Vendors Fiscal Year 2021-2022	
Category	**Payment Amount**
M&S Vendors	$4,220,222

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figure is based on the amounts remitted to vendors (ZA & ZC types on the AP Monitoring Report). The amount includes goods and services purchased with the identified materials and supplies vendors.

P2P Processes for Materials and Supplies

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 reasons for vendor credit holds
- Propose recommendations to make processes more efficient

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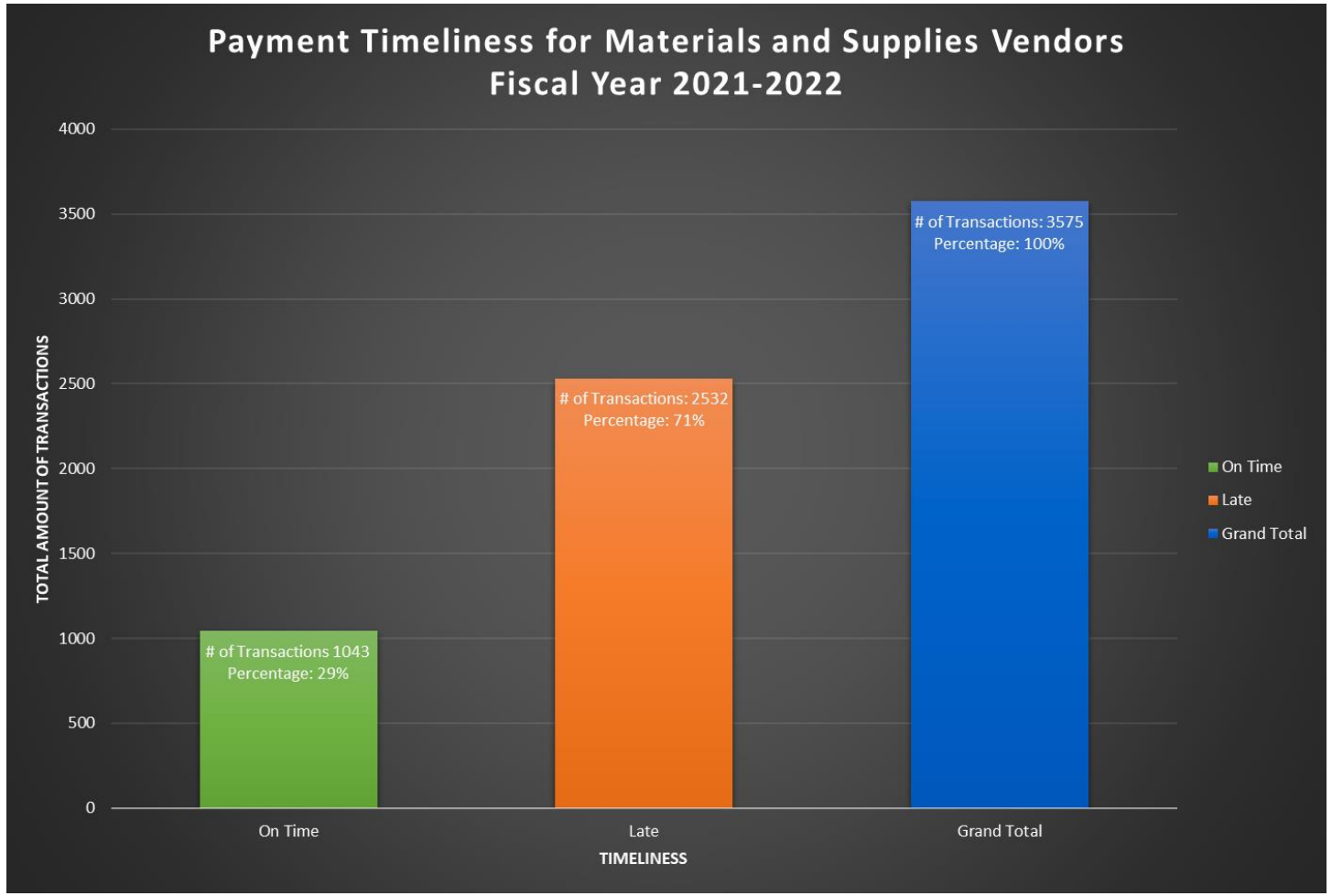
P2P Processes for Materials and Supplies Payment Timeliness

Timeliness	Number (#) of Transactions	Percentage of Transactions
On Time	1043	29%
Late	2532	71%
Grand Total	3575	100%

119 M&S Vendors
3,575 Transactions



Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The number of transaction figures are based on the PO and non-PO invoices (VI & VM types on the AP Monitoring Report). The transactions include goods and services transactions with the identified materials and supplies vendors.

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P2P Processes for Materials and Supplies

Number of Transactions with Materials and Supplies Vendors by Invoice Dollar Amount Fiscal Year 2021-2022			
Amount Category	**Number of Transactions**	**Percentage of Total Transactions**	**Total Dollar Amount**
Over $10,000	69	2%	$2,465,124
Over $3,500 up to $10,000	172	5%	946,093
Over $1,000 up to $3,500	542	15%	981,837
Over $500 up to $1,000	422	12%	290,225
From $0 up to $500	2,370	66%	408,091
Total	**3,575**	**100%**	**$5,091,369**

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figures are based on the PO and non-PO invoice amounts (VI & VM types on the AP Monitoring Report). The amounts and transactions include goods and services transactions with the identified materials and supplies vendors.

P2P Processes for Materials and Supplies

Top 10 Materials and Supplies Vendors Based on Payment Totals From the Agency to Materials and Supplies Vendors Fiscal Year 2021-2022		
Vendor	**Category**	**Payment Amount**
ROYAL INDUSTRIAL SOLUTIONS	WHSE, OPS, MNT	$537,272
AGILENT TECHNOLOGIES	LAB	341,595
DELL MARKETING L P	MNT	205,570
HACH COMPANY	WHSE, MNT, LAB	194,283
GRAINGER INC	WHSE, OPS, MNT, LAB	182,210
CINTAS CORPORATION	OPS	166,445
VAUGHAN'S INDUSTRIAL REPAIR CO INC	MNT	153,805
CS-AMSCO	MNT	129,791
FISHER SCIENTIFIC	WHSE, OPS, LAB	128,410
JCE EQUIPMENT INC	MNT	116,580

Source: FY 2021-2022 AP Monitoring Report run September 13, 2022. The M&S vendors included were identified by receiving units included in the audit that responded (OPS, WHSE, MNT & LAB – NOT FWSP because FWSP did not respond). The "Category" column represents the unit(s) that identified the vendor. Chemical vendors already considered in the Review of P2P Processes for Chemicals were excluded. The dollar figures are based on the amounts remitted to vendors (ZA & ZC types on the AP Monitoring Report). The amounts include goods and services purchased with the identified materials and supplies vendors.

P2P Processes for Materials and Supplies
Laboratory Materials and Supplies Statistics

Water Quality Laboratory Only Receiving function in SAP – Materials and Supplies (GL Account Category) *(Count of Distinct GR Documents with Days to Receive)* Data as of November 21, 2022				
Number of days to Receive	**FY 2020-21**	**%**	**FY 2021-22**	**%**
1-7 days	218	61%	76	20%
8-14 days	74	21%	54	14%
15-30 days	52	15%	120	31%
31-60 days	8	2%	32	8%
61-90 days	4	1%	20	5%
90 or more days	0	0%	81	21%
Totals	***356***	***100%***	***383***	***100%***

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

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P2P Processes for Materials and Supplies
Laboratory Materials and Supplies Statistics

Water Quality Laboratory Only Vendor Payment Processing in SAP - Materials and Supplies (GL Account Category) *(Count of Vendor invoices Paid and Past Due)* Data as of November 21, 2022				
	FY 2020-21		FY 2021-22	
	No. of Invoices	Percentage of Invoices	No. of Invoices	Percentage of Invoices
Paid on Time	236	72%	56	16%
Past due 1-30 days (paid one month late)	69	21%	90	26%
Past due 31-60 days (paid 2 months late)	18	5%	50	14%
Past due 61-90 days (paid 3 months late)	3	1%	55	16%
Past due over 90 days (paid 4 months late)	4	1%	95	27%
Totals	***330***	***100%***	***346***	***100%***

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

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Summary of Testing

Timeliness: Timely → Untimely		
Payment (including receiving and payment processing – due dates ranged between 30-45 days)		
Timely Payment (on or before due date)		**Untimely Payment (after due date)**
Receiving (in days after delivery)		
Timely ~1-15 days	> 15 days	**Receiving > 30 days**
Accounting Payment Processing (in days after SAP receiving completed)		
Timely ~1-15 days	> 15 days	**Payment Processing > 30 days**

Findings

33 of 35 or 94% of items tested were paid after the due date.

11 of the 35 or 31% of items were received in SAP more than 30 days after the delivery date.

18 of 35 or 51% of items were processed for payment more than 30 days after SAP receiving was completed (not including partial shipments).

7 of the 35 or 20% of items showed that AP staff acknowledged receipt of the invoice more than 30 days after the invoice date.

2 of 35 or 6% of items were paid after the due date and included partial shipments of the order.

3 of the 35 or 9% of items were paid after the due date, did not show SAP receiving information and were paid via check request (VM).

1 of 35 or 3% of items was incorrectly listed as a late payment in SAP due to a data entry error.

1 of 35 or 3% of items was a duplicate transaction that was created and cancelled after the actual transaction had already been completed.

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P2P Processes for Materials and Supplies

Breakdown of **Recommendations to Each Unit**	
Unit	**Number of Recommendations**
PCard Administrator	3
Contracts and Procurement	2
Facilities and Water System Programs	2
Operations	2
Maintenance	2
Warehouse	2
Water Quality Laboratory	4
Accounting	2
Total	**19**

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P2P Processes for Materials and Supplies

Delays and/or challenges in performing the receiving function in SAP are due to:

- *Staff time spent to obtain the receipts, back-up or delivery documentation*
- *Staff time spent looking into and resolving credit holds*
- *No guidelines to ensure receiving documents are provided to the appropriate staff*
- *No formal guidelines and training for the appropriate receiving process and this leads to delays, errors, reversals, and inaccurate transactions, etc.*
- *Orders not completely fulfilled on first shipment and credited orders*
- *Limited visibility of vendor invoices sometimes needed to complete the receiving*

Delays and/or challenges in processing invoices for payment by the due date are:

- *No method to account for and track all invoices and payments due*
- *No method for timely routing invoices needing approval signatures*
- *No procedures for timely processing invoices payments by the due date*
- *No method for completing timely, consistent vendor invoice matching*
- *Processes and procedures require changes to make them more efficient*
- *There are no documented SOPs for Accounting processes to establish and ensure a consistent, best practice methodology for prioritizing and processing payments*

P2P Processes for Materials and Supplies Audit Recommendations Provided

IA recommendations include the following:

- ***Procedures and goals for timely receiving needed***
- ***Operations not informed of Credit Holds for Non-BPA vendors until after order is placed***
- ***Use of technology & monitoring reports to make receiving process more efficient***
- ***Centralized location for Lab invoices for more efficient receiving***
- ***Coordination Meetings with staff completing Lab receiving to improve efficiency***
- ***Procedures, goals and KPIs for timely payments needed***
- ***Utilizing best practices, standard procedures to ensure timely vendor payments***
- ***Procurement Card expanded program***

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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.

Questions?

INFORMATION ITEM 2B

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

12/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Progress Update for all Procure to Pay Audit Recommendations - Fourth Update

Executive Summary:

This is the fourth progress update for the audit recommendations provided by Internal Audit (IA) through the various Procure to Pay (P2P) audits under the comprehensive Accounts Payable Operational and Internal Control audits. 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 determine if internal controls and processes are efficient and ensure vendor invoices are paid timely.

To-date, IA has provided 74 audit recommendations through the five comprehensive reviews: the Interim Audit Report, P2P for Agency Chemicals, P2P for Professional Services administered by the Engineering and Construction Management, P2P for Planning & Resources, and the P2P for Home Depot Credit Cards. Of the 74 audit recommendations provided, 33 are now implemented, 17 are in progress of being implemented and 24 are considered no longer applicable because alternate controls have been implemented to address the risks and observations identified. The attached report provides details of the results. IA will continue to provide quarterly progress updates for all outstanding recommendations, including new recommendations through additional P2P audits.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

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 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 - Fourth Update 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 - Fourth Update
Attachment 2 - Progress Update List for all outstanding P2P audits
Attachment 3 - PowerPoint

Inland Empire Utilities Agency
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DATE: December 1, 2022

TO: Shivaji Deshmukh
General Manager

Teresa V. Velarde

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Progress Update for all Procure to Pay Audit Recommendations – Fourth Update

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) is providing a progress update of the seventy-four (74) audit recommendations provided in the various Procure to Pay (P2P) audits completed under the comprehensive Accounts Payable Operational & Internal Controls Audit. The P2P audits include P2P Chemicals, dated November 24, 2021, P2P Engineering & Construction Management, dated February 24, 2022, P2P Planning & Resources, dated May 24, 2022, and the P2P Home Depot Credit Cards, dated September 1, 2022. The 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 invoices are paid on time. The purpose of the quarterly progress reports is to provide a status of each original audit recommendation from the P2P audits, including the corrective action plans, and planned dates for implementation.

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 are critical to the business initiatives of the Agency. The original audits evaluated the internal controls and business processes in place to ensure goods and services are ordered, delivered, received, and paid for in a timely manner, while following approved procurement guidelines. Good internal controls and sound business practices ensure the Agency can operate according to regulatory requirements and maintain healthy business relationships and a good business image with its vendors.

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

To date, IA has completed the following audits related to the comprehensive Accounts Payable Operational & Internal Controls Audit:

Interim Audit Report: Accounts Payable Operational and Internal Control Audit	
Date Issued	**Recommendations**
August 20, 2021	Interim Report (N/A)
Provided an overview of the additional audit procedures to be performed and mentioned preliminary observations and recommendations.	

Review of Procure to Pay Processes for Chemicals	
Date Issued	**Recommendations**
November 24, 2021	35

Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management (E&CM)	
Date Issued	**Recommendations**
February 24, 2022	21

Review of Procure to Pay Processes for Professional Services – Planning and Resources	
Date Issued	**Recommendations**
May 24, 2022	11

Review of Procure to Pay Processes for Home Depot Credit Cards	
Date Issued	**Recommendations**
September 1, 2022	7
The Agency has taken steps to phase out the Home Depot Credit Card program and absorb the purchases through the expanded Procurement Card program, as originally proposed by IA through the Procurement Card Audit in 2018. IA will not follow up on the 7 recommendations as they are considered no longer applicable.	

Review of Procure to Pay Processes for Materials and Supplies	
Date Issued	**Recommendations**
December 2022	19
Progress Update on the proposed recommendations will be provided in subsequent progress updates.	

The dashboard that follows provides a breakdown of the audit recommendations provided to each department/unit through the P2P audits. The dashboard also provides a status the recommendations. The attached report, provides a detailed list of each outstanding recommendation, noting the departments most current 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 recommendation. The list attached provides only a list of items that were still outstanding as of December 1, 2022. Audit recommendations resolved are not included. For additional information about prior audit recommendations, resolutions and final disposition of each, IA refers readers to the original final P2P Audits and prior Progress Updates submitted through scheduled Audit Committee Meetings. Reports are also available on IA's website on AIM or can be requested by contacting any member of IA.

	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	**6**	**0**	**0**	**1**	**7**	**100% Implemented** **7 of 7 recommendations have been addressed.**
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-50 procurements.**
Accounting	**4**	**16**	**0**	**9**	**29**	**13 of 29 recommendations 45% have been addressed.** **16 of 29 recommendations 55% are in progress.**
Home Depot Credit Cards	**0**	**0**	**0**	**7**	**7**	**With the expansion of the Procurement card program, these recommendations are no longer applicable.**
Total Recommendations	**33**	**17**	**0**	**24**	**74**	**49% Implemented** **25% In Progress** **25% No Longer Applicable**
Percentages	45%	23%	0%	32%		

Of the 74 audit recommendations:

- ***33 are now implemented (45% of all recommendations)***
- ***17 are in progress of being implemented (23% of all recommendations)***
- ***24 are considered no longer applicable because alternate controls were implemented (includes 7 related Home Depot Credit Cards). These recommendations are considered closed.***

Of the 17 recommendations in progress, 1 recommendation is in progress of being implemented by CAP. The recommendation relates to making needed updates to Agency Policy A-50 related to POs and approval authorities.

Of the 17 recommendations in progress, 16 are in progress of being implemented by Accounting. The recommendations are broken down as follows:

- 6 relate to documenting Standard Operating Procedures (SOPs) for the many accounting processes to implement consistent best practices,
- 5 relate to new software system, Accounting believes these will be resolved with the implementation of the new invoice recognition software system,

- 3 relate to establishing Key Performance Indicators (KPIs) for the various processes completed by accounting staff and the department to ensure activities can be tracked, measured and evaluated,
- 1 relates to evaluating ways to make email communication between accounting and other departments to minimize and make more efficient
- 1 relates to ensuring training is provided to staff after SOPs and KPIs are adopted

The following chart provides a summary of the 16 audit recommendations provided to Accounting and the proposed implementation plan (refer to the attached matrix of all recommendation for the recommendation).

P2P Report	Recommendation Number	Accounting's proposed method for implementation:
Chemicals	23	**Software:** Procure an invoice recognition software solution that will house and track all invoices coming into the Agency.
Chemicals	26	**SOP:** Develop SOP that documents the processes specific to how and what items AP selects for the 3-way match and payment processing.
Chemicals	27	**Training:** Develop SOP on the current processes and provide training to staff on any new processes established.
Chemicals	29	**KPI's:** Develop Key Performance Indicators (KPIs) after the invoice recognition software system has been implemented.
Chemicals	30	**SOP:** Develop SOP that documents the 3-way match and methodology for what and when matching is performed.
Chemicals	31	**SOP:** Develop SOP that documents the methodology for receiving, matching and processing payments.
Chemicals	32	**SOP:** Develop SOP that documents regarding data entry and supporting documentation (i.e. bill of lading, etc.).
Chemicals	33	**SOP & KPIs:** Develop SOP that addresses accuracy of data entry, KPI's for the matching and payment processes, monitoring of invoices, and communication of delayed items.
Chemicals	35	**SOP:** Develop SOP that documents and addresses accuracy of data entry and back posting of items.
E&CM	10	**SOP:** Develop SOP and document the timeframe for monitoring and handling delays.
E&CM	11	**KPI:** Develop KPI for AP staff for payment processing.
E&CM	12	**Software:** Procure an invoice recognition software solution that will house and track all invoices coming into the Agency.
E&CM	13	**Software:** Procure an invoice recognition software solution that will house and track all invoices coming into the Agency.
E&CM	14	**Software:** Procure an invoice recognition software solution and /or develop a SharePoint document library that will house and track all invoices coming into the Agency.
P&R	10	**Software/SharePoint:** Procure an invoice recognition software solution and /or develop a SharePoint document library that will house and track all invoices coming into the Agency.
P&R	11	**Email:** Procure an invoice recognition software solution. Discuss and determine the best communication method with Agency staff.

Highlights

IA participates in various meetings with all Agency departments related to the implementation of the various audit recommendations and the many Agency initiatives related to the P2P audit recommendations. IA is readily available to assist with special requests and audit projects, when requested, and in accordance with the Internal Audit Unit Charter and the Annual Audit Plan.

Highlights of the recommendations that have been implemented in the recent months include the following:

- Staffing updates & changes: Accounting continues to make needed updates and changes to address staffing needs.

- Software system: Accounting is working closely with Information Technology (IT) on the implementation of the Agency's new invoice recognition software (Esker). The purpose of the software is 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. IT anticipates the system will be up and running in January 2023. See the last page of the report for the Procure to Pay Timeline.

- IT Reports: IT has been working closely with Accounting to develop monitoring reports that Accounting can use to have greater visibility of all payable items. IT is also working closely with all Agency departments to develop additional monitoring and review reports. The reports will assist with sorting items, planning, prioritizing, and scheduling various activities with the end goal of ensuring payments are made on time.

- Expanded Procurement Card (P-card) program: In September 2022, the Agency expanded the P-card program to consolidate the various credit programs used by the Agency and to make small dollar purchases more efficient. A dedicated P-Card Administrator was assigned to implement and oversee the program, provide training and assistance to end-users, and implement US Bank Online system process. As of the date of this report, the Agency has expanded the use of the program and has issued 113 P-cards (from 20 cards in 2018).

- P-card policy/guidelines: Agency Management drafted the P-card policy in August 2022. IA reviewed the draft policy and provided comments and suggestions for consideration. The updated and revised draft P-card policy has not been finalized. Policy A-89 (Procurement Card, effective: 01/26/2016) continues to be available on the Agency's intranet as the guidelines for the P-card use.

- Procurement Ordinance: The Board of Directors approved the new Procurement Ordinance No. 110 on September 21st, 2022. The most significant changes to the Ordinance include:

    - Increase the dollar threshold from $3,500 to $10,000 for procurements, before two or more quotes are required. Thus, any purchases under $10,000 require only one quote and/or can be procured from any vendor. *(Previously, procurements less than $3,500 required one quote, while procurements greater than $3,500 required multiple quotes from the different vendors)*

    - Increase the dollar threshold from $5,000 to $10,000 for the single-transaction limit on the Procurement card

    - Increase the dollar threshold from $ 40,000 to $150,000 for the single change order or amendment

    - Increase the dollar threshold from $100,000 to $150,000, before Board approval and action is required, which usually impacts purchases, contracts and so on

- Agency Policy A-50: Contracts and Procurement (CAP) has addressed the original P2P recommendations provided. In June 2022, a new recommendation was provided related to taking the lead to make updates to Agency Policy A-50 (Non-Purchase Order Invoice Approval, effective 4/27/2015) regarding procurements for Purchase Orders and non-Purchase Orders. After the Esker software system has been implemented, CAP will be taking the lead to clarify Agency guidelines related to procurements.

- CAP Café: 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 initiated a virtual Q&A session each month "CAP Café" where attendees can ask questions, request guidance, assistance, and discuss any unique issues. The additional outreach efforts have provided valuable information for all users.

- Standard Operating Procedures: The E&CM Department has documented, finalized, and signed their SOP for processing invoices and pay estimates *(Owner: Manager of Engineering, Doc Name: Pay Estimate/Invoice Processing, Doc Number: ENGCM-07, Revision No. 1 and Effective: September 1, 2022)*. IA suggests E&CM ensure the SOP is readily available and accessible by all department staff, and can serve as a guide and/or training tool for staff.

- SharePoint Document Library: On the Agency's intranet (AIM), a SharePoint Document Library was created by IT for Accounting to forward the invoices received to the corresponding unit/department. Folders were created for the following units: Engineering & Construction Management, External Affairs, Human Resources, Information Technology, Operations & Maintenance, Planning and Resources, Water Quality Laboratory, and IERCA. IA noted these folders are being utilized but did not verify nor validate the consistency and/or frequency of the use of the folders.

The next progress update will report the 17 remaining recommendations mentioned above and an additional 19 audit recommendations recently provided through the P2P Materials & Supplies. Additional progress updates will be submitted until all recommendations are addressed.

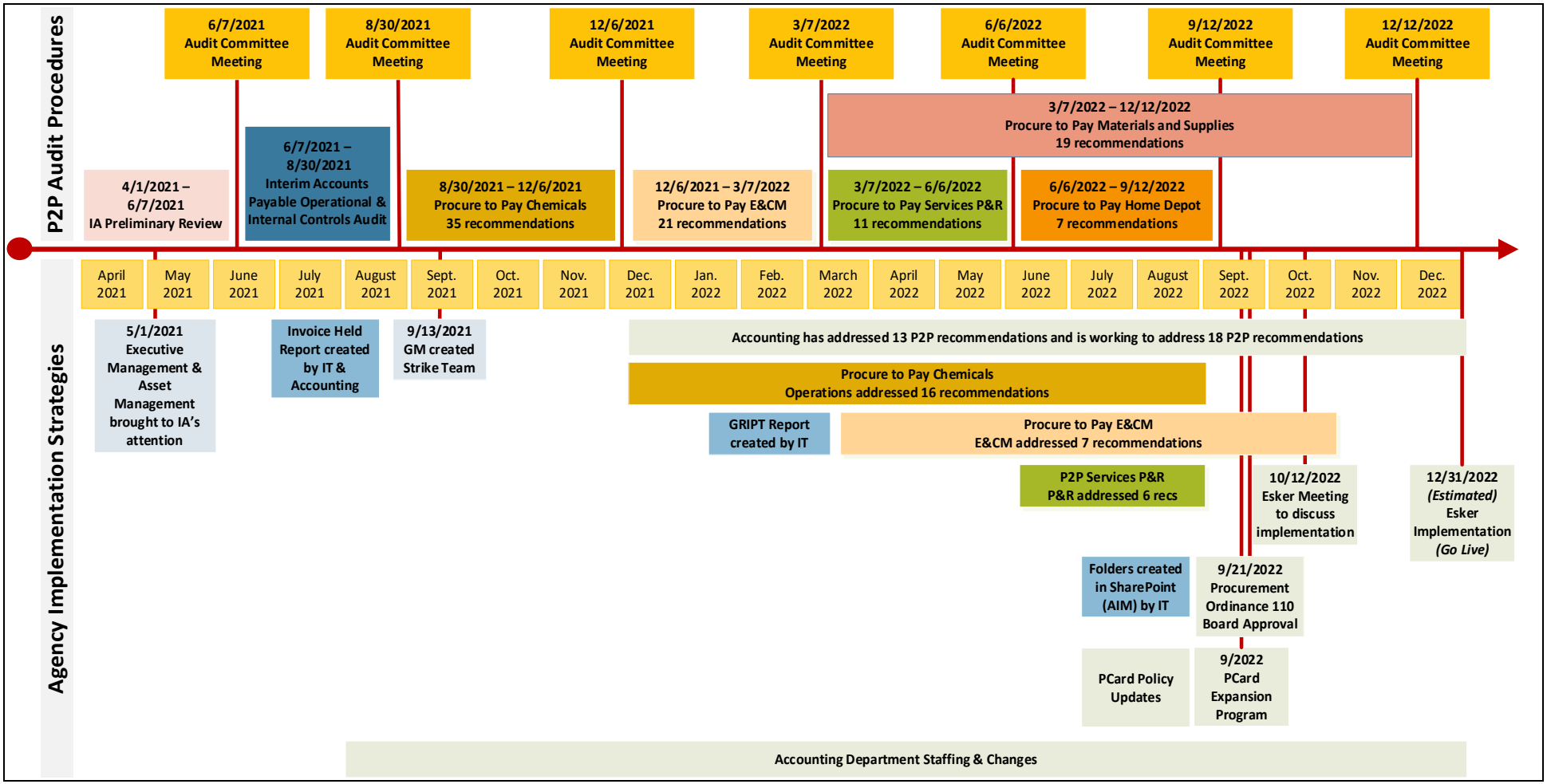
The attached matrix provides a status for each of the previously outstanding audit recommendations. For additional details, IA refers readers to the original audit reports, received and filed by the Board of Directors. The reports can be accessed through the Agency's intranet website or requested from the Manager of Internal Audit. IA will provide additional progress updates until all P2P audit recommendations have been addressed.

Acknowledgements
IA would like to extend our appreciation to the Agency Leadership, IT, E&CM, Accounting, and the CAP staff for their cooperation and assistance during this progress update 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 – Fourth Update 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.

Procure to Pay Timeline
To demonstrate P2P Audit Procedures & Agency Implementation Strategies



P2P Audit Recommendations

4th Progress Update Report

Reco #	Dept(s). taking the lead	Recommendation	STATUS: Implemented	STATUS: In Progress	STATUS: Not Implemented	STATUS: No Longer Applicable	Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA comments/notes
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. On 11/1/2022 ENG discussed that the SOP is now complete and it is being routed for review and signature, a final version is expected by the end of this week. On 11/9/2022 ENG shared the final SOP. All elements are included.	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. On 11/9/2022 Engineering staff shared the SOP. IA reviewed the SOP and determined it contains all items provided in the recommendations. This item is implemented and closed.
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 in November. 11/1/2022 Per discussion with statt, this item is considered implemented and closed.
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.	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. 11/1/2022 Per discussion with statt, this item is considered implemented. SOP has been finalized.

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. Engineering stated that they will continue to work with IT and Accounting to determine if there are additional monitoring reports.	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. 11/1/2022 Per discussion with statt, this item is considered implemented. SOP has been finalized and shared with staff. This item is implemented and closed.
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 11/28/2022 It was discussed that updates to the policy will be made after the implementation of Esker - the new invoice upload system. 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. 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. November 2022 - CAP indicated they continue to work on this item.

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. **<u>OR</u>** 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 able to extract data from the SAP Held Screen (code MIR6 in SAP) and has advised BIS of our request. We will continue to work with BIS to create a report, or data extraction capabilities (i.e.,	**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 theimplementation 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.

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 Overview SOP that is ready for review by the IA team, which will include the references (names) of the other desk manuals. We	**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. Additionally, Accounting staff should consider providing some type of training now even if SOPs have not been finalized, also for an In Progress status.**

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 continue to monitor timeliness of vendor payments, identify the cause of transactions not meeting these goals, and how to prevent such delays. The Accounting Supervisor will further consider these metrics as part of their probationary or annual evaluation of AP staff's job performance.	**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 <u>documents that should be included. Recommendation</u>**

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?**

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 i**mmediately 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
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 supervisor at the end of each month to ensure open items are cleared,** •work with the IT Department to determine a more streamlined/efficient process in SAP to verify that receiving was completed and expedite the three-way match, and •utilize software tools such as SAP Concur for invoice process and management.		**X**			**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 identity possibly process improvement opportunities. These issues and possible preventive solutions are discussed with the Accounting Supervisor during weekly meetings. We do not agree that creating a separate tracking for "invoice issues" is an efficient way to monitor vendor payment processing. Instead, on an ongoing basis, as part processing payments, AP staff follow-up on issues that are preventing invoices from being processed. The Accounting Supervisor reviews open invoice issues on a daily basis through monitoring the APGroup email, the GR/IR report (FBL3N screen for account 200900), as well as through communication with AP and other Agency staff.	**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; this recommendation is not indicating a written/documented SOP is needed 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 more efficient process within SAP to verify that any items pending receiving are addressed/resolved so that they are paid timely, and to *utilize SAP to manage invoices, which includes continuously reviewing invoices that are due and require receiving and to ensure there is a process in place to follow up. Per the response provided, the recommendation is considered In Progress, until the department documents/implements a SOP for reveiwing, monitoring invoices.

14	Acct	The Accounting management **work with the IT Department to evaluate the feasibility of implementing a centralized SharePoint portal** (like the one developed for E&CM) and determine if it would be of value to have for all Professional Services invoices where they can be stored for further processing. In addition, Share Point can assist AP staff in sorting and identifying invoices for their staff and ensure they track the approvals needed. **Accounting management should work with IT to determine the feasibility of utilizing SAPs workflow process to route invoices** for approval while keeping track of where they are in the approval process and ensuring timely payments. **Additionally, establish formal, documented procedures for Accounting and other departments using SharePoint to ensure there is consistency in using SharePoint and timely processing invoices for approval and payment.**		X			**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.

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.**

Home Depot Recommendations

1	CAP	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)	**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.**
2	All Depts with HDCCs	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 expediate the receiving in SAP. If the Department leaders determine that using current iPhone technologies to upload to a SharePoint Document Library would 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.	**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.**
3	Acct	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.	**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.**
4	CAP	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.	**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.**
5	Acct	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 Agency takes advantage of the early payment discount and pays on-time.	**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.**
6	CAP	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.	**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.**
7	CAP	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. -Deactivate/Cancel any cards that are no longer needed and/or not being used by Agency staff, which reduces the risks to the Agency.	**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.**

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 is recommendation was provided in the P2P Chemicals audit and the P2P E&CM audit and according to Accounting, currently In Progress of being addressed)***
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	**6**	**0**	**0**	**1**	**7**	100% Implemented 7 of 7 recommendations have been addressed.
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-50 procurements.
Accounting	**4**	**16**	**0**	**9**	**29**	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Home Depot Credit Cards	**0**	**0**	**0**	**7**	**7**	With the expansion of the Procurement card program, these recommendations are no longer applicable.
Total Recommendations	**33**	**17**	**0**	**24**	**74**	**49% Implemented** **25% In Progress** **25% No Longer Applicable**
Percentages	45%	23%	0%	32%		

Inland Empire Utilities Agency
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Progress Update for all P2P Audit Recommendations (Fourth Update)

Teresa Velarde

Manager of Internal Audit

December 12, 2022

P2P Audits completed to-date

Interim Audit Report: Accounts Payable Operational and Internal Control Audit	
Date Issued	**Recommendations**
August 20, 2021	Interim Report (N/A)

Review of Procure to Pay Processes for Chemicals	
Date Issued	**Recommendations**
November 24, 2021	35

Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management (E&CM)	
Date Issued	**Recommendations**
February 24, 2022	21

Review of Procure to Pay Processes for Professional Services – Planning and Resources	
Date Issued	**Recommendations**
May 24, 2022	11

Review of Procure to Pay Processes for Home Depot Credit Cards	
Date Issued	**Recommendations**
September 1, 2022	7

Review of Procure to Pay Processes for Materials and Supplies	
Date Issued	**Recommendations**
December 2022	19

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Audit Recommendations related to the P2P Audits

Current Status of the 74 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	6	0	0	1	7	100% Implemented 7 of 7 recommendations have been addressed.
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-50 procurements.
Accounting	4	16	0	9	29	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Home Depot Credit Cards	0	0	0	7	7	With the expansion of the Procurement card program, these recommendations are no longer applicable.
Total Recommendations	33	17	0	24	74	49% Implemented 25% In Progress 25% No Longer Applicable
Percentages	45%	23%	0%	32%		

Of the 74 recommendations:

- **33 are now implemented (45% of all recommendations)**
- **17 are in progress of being implemented (23% of all recommendations)**
- **17 are considered no longer applicable because alternate controls were implemented**
- **7 are related to the Home Depot Credit Cards and no longer applicable.**

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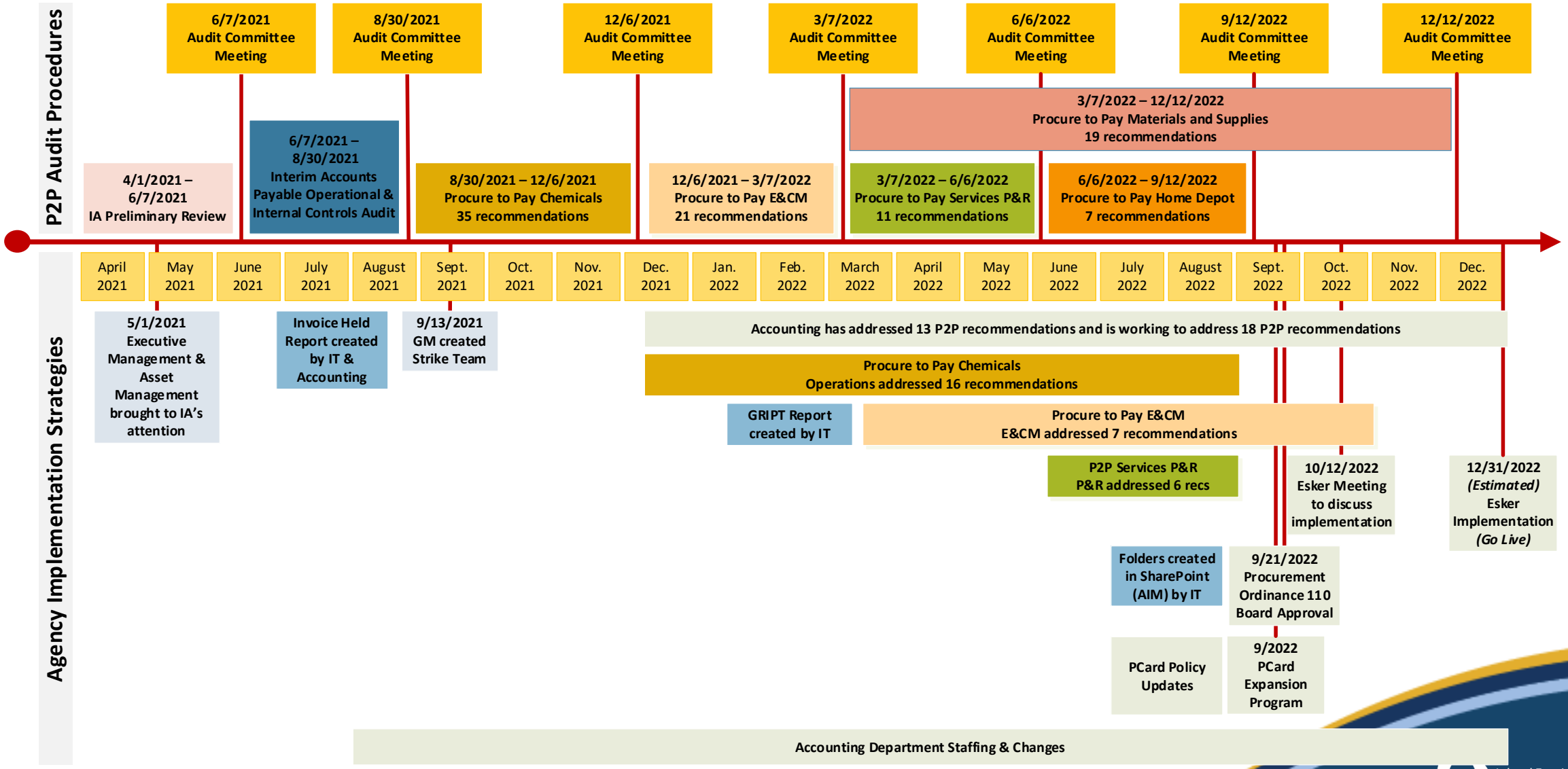
P2P Recommendations In Progress

Of the 17 recommendations in Progress:

- 6 relate to documenting **Standard Operating Procedures** (SOPs) for the many
- 5 relate to **software**, Accounting stated these will be resolved with the implementation of the new invoice recognition software system
- 3 relate to establishing **Key Performance Indicators** (KPIs) for the various processes completed by staff and the department to ensure there are measurable metrics
- 1 relates to making **email communication** more efficient
- 1 relates providing staff **training** after SOPs and KPIs are adopted
- 1 relates to making updates to outdated **Agency Policy** related to POs

P2P Audits Timeline



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Agencywide Highlights & Implementation Strategies to address P2P recommendations

- Accounting Department Staffing and Changes
- Working with IT to implement invoice recognition software
- Working with IT to develop additional monitoring reports
- Expanded the Agency's Procurement Card (P-card) program
- P-card policy/guidelines
- New Procurement Ordinance No. 110
- SharePoint Document Library with folders for each department/unit
- Standard Operating Procedures

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

INFORMATION ITEM 2C

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

12/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Contracts and Procurement Follow-Up Audit - 2022

Executive Summary:

The Board approved Internal Audit Charter, requires that Internal Audit (IA) follow-up on outstanding audit recommendations to determine if corrective actions have been taken. The follow-up reviews are scheduled through the Board-approved Annual Audit Plan and Agency Management supports the implementation efforts of the recommendations.

IA worked closely with Contracts and Procurement (CAP) and Information Technology (IT) to evaluate the implementation status of one outstanding item from the review completed in 2017. As a result of this 2022 follow-up review, the recommendation is now implemented. Specifically, IA, CAP and IT closely evaluated the authorization roles assigned to CAP staff members in the Agency's financial system (SAP) to ensure there is adequate segregation of duties and no conflicts exist. No new recommendations were provided in this report. IA commends CAP staff for their efforts in implementing the recommendation and appreciates their cooperation and assistance during this review. Additional user roles and access audits will be scheduled periodically and when warranted. All projects are scheduled through the Board-approved Annual Audit Plan. The complete report with details 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:

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 (action item) and the Report of Open Audit Recommendations (information item), the follow-up audit was proposed in the Annual Audit Plan.

On December 8, 2021, the Board of Directors reconfirmed the approved Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Contracts and Procurement Follow-Up Audit - 2022 is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Contracts and Procurement Follow-Up Audit Report - 2022
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: December 1, 2022

TO: Shivaji Deshmukh
General Manager

FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: Contracts and Procurement Follow-Up Audit - 2022

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) performed a follow up review of the one outstanding recommendation provided in the Contracts and Procurement Follow-Up Audit report, dated August 30, 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 IA's Charter.

Audit Objective, Scope, and Results

The purpose of this follow-up review was to evaluate the implementation status for one outstanding recommendation provided in the 2017 follow-up audit, which has now been implemented. The recommendation required that Contracts and Procurement (CAP) evaluate the assigned authorization roles provided to CAP's staff in the Agency's financial system, SAP to ensure there was adequate segregation of duties and no conflicts. IA did not expand the scope of the review to evaluate additional areas or operations within CAP. Future audits will be scheduled through the Board-approved Annual Audit Plan. The attached report provides details of IAs review.

Acknowledgements

IA would like to extend our appreciation to CAP and Information Technology (IT) staff for their cooperation and assistance during this review and look forward to the continued collaboration.

Discussions with Management

IA met and provided the results of this review to the respective department management. Where possible, their comments have been incorporated.

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

Background Information

Contracts and Procurement

As stated in the Fiscal Year 2021/22 and 2022/23 Operating and Capital Program Budget (Budget document), CAP's mission is as follows:

MISSION STATEMENT

Provide cost-effective, responsive, and responsible environmentally friendly customer service and support to all Agency Departments in a professional and ethical manner with respect to Agency-wide contract administration and purchasing, risk, and safety.

DESCRIPTION AND PURPOSE

The Contracts and Procurement (CAP) is responsible for a diverse scope of services and responsibilities. CAP administers the acquisition of equipment, materials, supplies, and services. This is accomplished through business practices as outlined in the Board adopted Procurement Ordinance as well as associated resolutions, policies, and procedures. Department ethic and compliance guidelines in support of meeting the many state and federal government contracting and procurement codes have been established and are adhered to in conducting business on behalf of the Agency. Additionally, risk and safety services are provided to ensure protection of the Agency's business, employees, and assets, as well as the public, by ensuring appropriate insurance policies and procedures are in place.

As of September 12, 2022, staffing for CAP includes nine (9) personnel (eight (8) full-time equivalents and one (1) limited-term position).

Contracts and Procurement Follow-Up Audit
Audit Report dated August 30, 2017

In August 2017, IA performed a follow-up review on two (2) open recommendations from 2012 and were determined to be implemented. Additionally, IA provided one (1) new recommendation in the 2017 report; therefore, this review evaluates the implementation status of the one recommendation.

This report provides the details of the review related to the one outstanding recommendation. IA refers readers to the prior 2017 audit report, which were received and filed by the Board of Directors at the time of issuing the reports, these reports can also be accessed through the Agency's Intranet or requested from the Manager of Internal Audit:

- Contracts and Procurement Follow-Up audit, dated August 30, 2017
- Contracts and Procurement Follow-Up audit, dated August 29, 2012
- Contracts and Procurement Follow-Up audit, dated May 24, 2010
- Contracts and Procurement Operations audit & Response, dated November 18, 2008

2017 Recommendation #1

CAP should review the SAP assigned user roles and transaction codes and ensure that good internal controls are followed, and no conflict exists. IA recommends CAP consider eliminating or reducing the ability to Create PRs and Receive Goods, for CAP buyers to strengthen internal controls and further reduce risks.

Status: IMPLEMENTED

In the 2017 follow-up review, IA reviewed a report from the Agency's financial system (SAP) that listed all roles and transaction codes assigned to each member of CAP within the Finance Department. IA's review noted some potential conflict with segregation of duties.

In the 2017 follow-up review, IA suggested that CAP evaluate the needs of the department and the Agency and should evaluate the user roles assigned and consider eliminating or reducing the roles within the department. The proposed changes suggested were to reduce the number of CAP staff members that could create Purchase Requisitions and receive Goods, and add the role Create Purchasing Master Department for the Manager of the CAP Department.

For the 2022 follow-up review, IA reviewed a detailed IT report that listed all the roles and transaction codes assigned to the 9 employees under CAP. The table shows the SAP role assignments and includes IAs observations that required attention by CAP:

CAP staff - SAP User Roles*
Data Prior to changes/updates

	Create Purchase Requisitions (PRs)	Approve Purchase Requisitions (PRs)	Create and Change Purchase Orders (POs) & Contracts	Receive Goods	Create Purchasing Master Data	Superuser	IA's Observations
Employee # 1 *(Manager of Contracts & Procurement)*		X	X		**X**		IA suggested to add the Create Purchasing Master Data role (per 2017 report).
Employee # 2 *(Contracts & Procurement Supervisor)*		X	X		X	**X**	IA suggested the SAP Superuser role be eliminated or removed. IA recommended to evaluate the needs of the employee and only assign the required SAP transaction codes/roles.
Employee # 3 *(Acting Contracts & Procurement Supervisor)*			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 4 *(Risk Specialist)*	X		X	X	**X**		The role, Create Purchasing Master Data, was added after 2017. IA recommended that CAP evaluate the SAP roles assigned to this user.
Employee # 5 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 6 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 7 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 8 *(Contracts Administrator II)*			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 9 *(Procurement Specialist I)* **Employee Separated**			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Total Employees with access	**4**	**2**	**9**	**7**	**3**	**1**	

*Source: Agency 's financial system (SAP), reported provided by the IT department. Data as of September 26, 2022.

IA discussed with CAP the 2022 SAP user role assignments and the proposed changes suggested in 2017 as well as the suggested changes for 2022. CAP agreed that changes are needed to ensure adequate controls are in place and only the necessary roles and/or transaction codes are assigned to staff. The IT department completed the respective changes that were requested by CAP, see the updated table below:

CAP Department - SAP User Roles*
Data as of November 8, 2022

	Create Purchase Requisitions (PRs)	Approve Purchase Requisitions (PRs)	Create and Change Purchase Orders & Contracts (POs)	Receive Goods	Create Purchasing Master Data	Superuser	Changes requested by CAP and made by IT:
Employee # 1 *(Manager of Contracts & Procurement)*		X	X		X		**No changes made**
Employee # 2 *(Contracts & Procurement Supervisor)*		X	X		X		**Removed Superuser Role**
Employee # 3 *(Acting Contracts & Procurement Supervisor)*			X	X			**No changes made**
Employee # 4 *(Risk Specialist)*	X			X	X		**Removed Create and Change Purchase Orders & Contracts**
Employee # 5 *(Contracts Administrator II)*	X		X				**Removed Receive Goods**
Employee # 6 *(Contracts Administrator II)*	X		X				**Removed Receive Goods**
Employee # 7 *(Contracts Administrator II)*	X		X	X			**No changes made**
Employee # 8 *(Contracts Administrator I)*			X		X		**Removed Receive Goods. Added Create Purchase Master Data.**
Employee # 9 *(Procurement Specialist I)* ***Employee Separated***			X	X			**Position vacant when audit report was issued.**
Total Number of Employees with access	**4** ***No changes***	**2** ***No changes***	**8** ***Decrease by 1***	**4** ***Decrease by 3 staff***	**4** ***Increase by 1 staff***	**0** ***Decrease by 1 staff***	

*Source: Agency 's financial system (SAP), reported provided by the IT department. Data as of November 3-8, 2022.

Of the SAP User roles assigned to CAP staff, the roles that experienced the most changes were, *Receive Goods* (decreased) and *Superuser* (removed). The reduction in the number of CAP staff that can Receive Goods aligns with IA's suggestions from 2017.

The Superuser role assists with the fiscal year-end processing, carry forward activities, POs, contracts, troubleshooting and problem-solving various issues related to the procurement processing within the Agency's financial system (SAP). The IT department discussed and agreed that the Superuser role should be removed from any CAP staff, and a new role will be developed and assigned. The Superuser role should not be included nor assigned to any employee's permanent SAP User roles. Going forward, the IT department determined that the Superuser role will only be assigned temporarily, for the duration of the fiscal year-end closing/carry forward process and on an as-needed basis (when requested and if warranted).

IA commends the CAP unit for working closely with IA to evaluate the SAP user roles and audit recommendations in order to make the needed updates/changes to strengthen

internal controls and to reduce any conflicts in duties and/or risks. CAP has taken steps and met the intent of the 2017 recommendation. IA considers this recommendation to be implemented and closed.

IA will continue to randomly and periodically evaluate SAP User roles assigned to Agency departments/units to ensure there are adequate segregation of duties. Audit projects are scheduled through the Board-approved Annual Audit Plan.

The Contracts and Procurement Follow-Up Audit - 2022 is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

TV:sn

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Contracts and Procurement Follow-Up Audit - 2022

Sapna Nangia

Senior Internal Auditor

December 12, 2022

Contracts and Procurement Follow-Up Audit - 2022

- Follow-up review was completed in August 2017
  - 1 recommendation provided
  - **Now considered fully implemented**

- 2017 Open recommendation was related to Segregation of Duties:
  - CAP department User roles and transaction codes assigned to staff
  - Follow good internal controls
  - Strengthen internal controls
  - Reduce and/or eliminate conflicts of interest
  - Reduce any additional risks

- No new recommendations issued

- IA will continue to evaluate SAP User Roles assigned for various departments or by roles and duties, periodically. All audit projects will be scheduled through the Annual Audit Plan

Contracts and Procurement Follow-Up Audit - 2022

IA's initial review:

CAP staff - SAP User Roles*
Data Prior to changes/updates

	Create Purchase Requisitions (PRs)	Approve Purchase Requisitions (PRs)	Create and Change Purchase Orders (POs) & Contracts	Receive Goods	Create Purchasing Master Data	Superuser	IA's Observations
Employee # 1 *(Manager of Contracts & Procurement)*		X	X		**X**		IA suggested to add the Create Purchasing Master Data role (per 2017 report).
Employee # 2 *(Contracts & Procurement Supervisor)*		X	X		X	**X**	IA suggested the SAP Superuser role be eliminated or removed. IA recommended to evaluate the needs of the employee and only assign the required SAP transaction codes/roles.
Employee # 3 *(Acting Contracts & Procurement Supervisor)*			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 4 *(Risk Specialist)*	X		X	X	**X**		The role, Create Purchasing Master Data, was added after 2017. IA recommended that CAP evaluate the SAP roles assigned to this user.
Employee # 5 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 6 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 7 *(Contracts Administrator II)*	X		X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 8 *(Contracts Administrator II)*			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Employee # 9 *(Procurement Specialist I)* **Employee Separated**			X	**X**			IA suggested only 1-3 employees should have the role, Receive Goods.
Total Employees with access	**4**	**2**	**9**	**7**	**3**	**1**	

*Source: Agency 's financial system (SAP), reported provided by the IT department. Data as of September 26, 2022.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Contracts and Procurement Follow-Up Audit - 2022

Recommendation Status: Implemented

CAP Department - SAP User Roles*
Data as of November 8, 2022

	Create Purchase Requisitions (PRs)	Approve Purchase Requisitions (PRs)	Create and Change Purchase Orders & Contracts (POs)	Receive Goods	Create Purchasing Master Data	Superuser	Changes requested by CAP and made by IT:
Employee # 1 *(Manager of Contracts & Procurement)*		X	X		X		No changes made
Employee # 2 *(Contracts & Procurement Supervisor)*		X	X		X		Removed Superuser Role
Employee # 3 *(Acting Contracts & Procurement Supervisor)*			X	X			No changes made
Employee # 4 *(Risk Specialist)*	X			X	X		Removed Create and Change Purchase Orders & Contracts
Employee # 5 *(Contracts Administrator II)*	X		X				Removed Receive Goods
Employee # 6 *(Contracts Administrator II)*	X		X				Removed Receive Goods
Employee # 7 *(Contracts Administrator II)*	X		X	X			No changes made
Employee # 8 *(Contracts Administrator I)*			X		X		Removed Receive Goods. Added Create Purchase Master Data.
Employee # 9 *(Procurement Specialist I)* ***Employee Separated***			X	X			Position vacant when audit report was issued.
Total Number of Employees with access	**4** ***No changes***	**2** ***No changes***	**8** ***Decrease by 1***	**4** ***Decrease by 3 staff***	**4** ***Increase by 1 staff***	**0** ***Decrease by 1 staff***	

*Source: Agency 's financial system (SAP), reported provided by the IT department. Data as of November 3-8, 2022.

Inland Empire Utilities Agency
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Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

The Contracts and Procurement Follow-Up Audit - 2022 is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Questions?

INFORMATION ITEM 2D

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Date: December 21, 2022

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

12/12/22

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Department Quarterly Status Report for December 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 procure to pay processes for Materials and Supplies and the Contracts and Procurement Follow-Up Audit (2022). Additionally, IA completed the Progress Update for all P2P audit recommendations and followed up on the status of 21 outstanding recommendations. 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. For additional information and insight, IA is attaching, two positions papers published by the Institute of Internal Auditors related to current risk trends and the significance of the Charters.

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 December 2022
Attachment 2 - Article from The Institute of Internal Auditors - Tone at the Top (October 2022)
Attachment 3 - Article from The Institute of Internal Auditors - IIA Position Paper The Internal Audit Charter (January 2019)

Internal Audit Department
Quarterly Status Report for December 2022

Projects Completed This Period

Project: **Accounts Payable Operational and Internal Control Audit: Review of Procure to Pay Processes for Materials & Supplies**

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: **Complete**
Internal Audit (IA) reviewed the procure to pay processes for the following units: Operations, Maintenance, Facilities and Water Systems Programs, Warehouse and the Laboratory. In Fiscal Year 2021-2022, the Agency spent approximately $4.2M on purchases with vendors to procure materials and supplies for the departments mentioned (some portion may be related to services also with the same vendors).

IA is proposing 19 audit recommendations to address findings identified. Details are provided in the audit report matrix of observations and recommendations. IA noted that there are delays and challenges in performing the receiving function in SAP and also processing invoices for payment by the due date for various reasons. Below is a list of observations made.

Delays and/or challenges in performing the receiving function in SAP due to:

- Staff time spent to obtain the receipts, back-up or delivery documentation
- Staff time spent looking into and resolving credit holds
- No formal guidelines to process timely payments
- No formal guidelines and training for the appropriate receiving process and this leads to delays, errors, reversals, and inaccurate transactions, etc.
- Orders not completely fulfilled on first shipment and credited orders
- Limited visibility of vendor invoices sometimes needed to complete the receiving

Delays and/or Challenges in processing invoices for payment by the due date:

- No method to account for and track all invoices and payments due
- No method for timely routing invoices needing approval signatures
- No procedures for timely processing of invoices and payments due
- No method for timely, consistently completing vendor invoice matching
- 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
- Orders not completely fulfilled on first shipment and credited orders

The report attached under separate cover provides details of the audit procedures, detailed flowcharts and narratives of each of the processes and a summary of the audit procedures applied and the results of the testing for the selected sample of transactions.

Project: **Contracts and Procurement Follow-Up Audit (2022)**

Scope:
IA completed a follow-up review to determine the status of the open recommendation provided in the Contracts and Procurement (CAP) Follow-Up Audit report, dated August 30, 2017.

Status: **COMPLETE**
The follow-up review noted the one outstanding recommendation is now implemented. The recommendation required that CAP evaluate the assigned authorization roles provided to staff in the Agency's financial system (SAP) to ensure there are no conflicts of interest. IA led discussions with both CAP and the Information Technology department (IT). Any changes were incorporated by IT. IA did not expand the scope of the review to evaluate additional areas, further reviews will be scheduled through the Board-approved Annual Audit Plan. No recommendations were issued in this review. The audit report is included under a separate cover and provides details of the audit observations and recommendations.

Project: **Accounts Payable Operational and Internal Control Audit:**
Quarterly Progress Update for all P2P Audit Recommendations – 4th 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 74 audit recommendations provided through the P2P Audits:

- Review of Procure to Pay Processes for Chemicals:
  - Dated November 24, 2021
  - Provided 35 audit recommendations
- Review of Procure to Pay Processes – Engineering & Construction Management
  - Dated February 24, 2022
  - Provided 21 audit recommendations
- Review of Procure to Pay Processes - Planning and Resources
  - Dated May 25, 2022
  - Provided 11 audit recommendations
- Review of Procure to Pay Processes – Home Depot Credit Cards
  - Dated September 1, 2022
  - Provided 6 recommendations related to keeping the program

Status: **Completed Quarterly Report & Ongoing**
This is the status of all P2P recommendations, as of December 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	6	0	0	1	7	100% Implemented 7 of 7 recommendations have been addressed.
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-50 procurements.
Accounting	4	16	0	9	29	13 of 29 recommendations 45% have been addressed. 16 of 29 recommendations 55% are in progress.
Home Depot Credit Cards	0	0	0	7	7	With the expansion of the Procurement card program, these recommendations are no longer applicable.
Total Recommendations	33	17	0	24	74	49% Implemented 25% In Progress 25% No Longer Applicable
Percentages	45%	23%	0%	32%		

Of the 74 audit recommendations provided through the three P2P audits, 33 are now implemented, 17 are in progress of being implemented and 24 are considered no longer applicable because alternate controls were implemented. Of the 17 recommendations in progress, 16 are in progress of being implemented by Accounting, 6 relate to SOP processes, 5 relate to the implementation of new software, 3 relate to establishing KPIs, 1 relates to internal office communication and 1 relates to providing staff training. IA will continue to provide quarterly progress reports until all audit recommendations have been addressed.

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 has met with both the IT and CAP departments to discuss requirements before moving forward. Both departments have provided helpful insight and guidance to consider for a successful process, project implementation and considerations. IA will continue to work with internal departments before moving forward.

At this time, the Agency is in the process of implementing Esker, a new invoice recognition software system. The plans are for Esker to assist with accounting for, routing and tracking all Agency invoices. IA would like to wait for full implementation of Esker to determine if the IA is able to download analytical reports and tools for audit purposes. For this reason, IA will hold off on evaluating Audit Software until Esker has been utilized by IA.

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 is asked to participate in various meetings to gain an understanding of the Agency's priorities, comprehend Agency risks, represent the department and be a resource to provide feedback and recommendations.

Status: On-going
During this quarter, IA participated in meetings related to the Agency's Capital Budget, Safety and other programs. 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 – Information Technology Department**

Scope: **To be planned after all P2P Reviews**
To evaluate the status of the two open recommendations from the original 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 IT to evaluate the remaining two recommendations. Based on the results of the discussions with the IT, 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, IT initiated an inventory of *Technology assets* assigned to Agency staff. The purpose of the inventory is to update asset records of Technology equipment issued through the department. A technology asset inventory assists in ensuring financial reporting is accurate and assists in maintaining physical accountability of the assets. Technology assets include desktop computers, laptops, monitors, printers, docking stations, tablets, mobile phones, Jetpacks, and other computer peripherals.

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

Report on Open Audit Recommendations as of December 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 December 2022, there are 82 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
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) • Planning & Resources (May 26, 2022) *(Open recommendations as of December 1, 2022)*	See column called Area Audited	17
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		**109**

**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 December 2022, 109 recommendations remain outstanding:

- 17 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
- **41 recommendations are eligible for follow-up evaluation**

Special Projects

Ongoing

IA perform special reviews and projects including analyzing transactions, evaluating documents and policies, verifying information, assisting with interpretation of Agency Policies or other required procedures, and providing recommendations and feedback on results of the analysis, engaging necessary assistance if and/or when necessary, reporting to the General Manager and the Audit Committee. These services are provided according to the IA and Audit Committee Charters, the Annual Audit Plan, and/or best practices. Special Projects can be short or long-term projects, typically requiring more than 80 hours of staff time and requiring setting aside or delaying work on scheduled audit projects. The scope of the review is not generally known, and the work must be handled with the highest degree of confidentiality and care, as with all audit projects. Special Projects are usually considered highly confidential.

Management Requests

Ongoing

IA assists Agency Management with 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

The Internal Audit Unit Charter documents the purpose, authority and responsibilities of the Internal Audit Function. Attached to this status report is the IIA's most recent position paper on the Internal Audit Charter and provides key takeaways and reference information for organizing and establishing an audit charter. IA is including it here as reference information and to demonstrate that the current Charters and proposed charters are consistent with best recommended guidance.

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, staff attended the following trainings:

- IIA San Gabriel Valley Chapter (Webinar) – Applying the International Professional Practices Framework in the Unique Public Sector Environment
- IIA Inland Empire Chapter (Webinar) – PCI Compliance
- IIA Inland Empire Chapter (Webinar) – Business and IT Internal Audit Team Collaboration Best Practices - Virtual
- IIA Inland Empire Chapter (Webinar) – Ethics
- IIA and ACFE Los Angeles Chapters (Webinar) – Fraud Seminar

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 temporary agency)

Future Audit Committee Meetings

- *Monday, March 6, 2023 – Regularly Scheduled Audit Committee Meeting*
- *Monday, June 12, 2023 - Regularly Scheduled Audit Committee Meeting*
- *Monday, September 11, 2023 – Regularly Scheduled Audit Committee Meeting*
- *Monday, December 11, 2023 – Regularly Scheduled Audit Committee Meeting*

TONE at the TOP®

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Issue 113 | October 2022

Mitigating Cyber Threats

Cybersecurity has become a permanent fixture in the modern risk landscape, and boards face increasing pressure to provide proper oversight of a threat that is multifaceted and constantly evolving. A total of 70% of board directors called cybersecurity "a strategic, enterprise risk" in an NACD Board Survey.[1] A wide range of issues fall under the cybersecurity umbrella — all are critical concerns, including privacy protection; ransomware, malware, and denial-of-service or phishing attacks; inadequate cybersecurity policies; and incident response and recovery plans, to name a few.

Organizations are also facing new regulations that call for them to report on breaches they have experienced. The Cyber Incident Reporting for Critical Infrastructure Act[2], for example, requires reporting that would allow the federal Cybersecurity and Infrastructure Security Agency to provide assistance to victims during cyberattacks, to identify trends, and to share information with other potential victims. The Securities and Exchange Commission has also proposed regulations[3] that would standardize disclosures related to public company cybersecurity risk management, strategy, governance, and incident reporting.

Internal audit, which provides organizations with independent, objective assurance and advice, can be a powerful resource for boards in addressing cyber risks. According to a PwC report[4], "many companies leverage internal audit to review cyber processes and controls, including resilience and response."

Steps to Enhanced Security

As boards consider the cybersecurity threats they face, there are a number of areas where internal audit can make a difference.

Recognizing the risk. Cyber threats have moved to the top of companies' risk rankings. "The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts," according to *OnRisk 2022*[5] from The Institute of Internal Auditors (IIA). The report, which is based on interviews with board members, C-suite executives, and chief audit executives (CAEs), identified cybersecurity as the top risk this year.

Unfortunately, some company leaders may not fully recognize the threat. In the OnRisk report, of particular concern was the gap between the risk relevance assigned to cybersecurity by CAEs, board members, and executive management. While 97% of CAEs rated cybersecurity as a highly relevant risk to their organization (rating it at 6 or 7 on a 7-point scale), only 87% of board members did so and only 77% of C-suite executives.

The strong relevance rating among CAEs suggests their high level of awareness of cybersecurity issues. That's not surprising, given internal audit's holistic knowledge of an organization. As boards seek to leverage and improve risk assurance beyond financial and compliance risks, they can turn to internal audit to help describe cybersecurity concerns and quantify their potential impact. This can include spotlighting failures in risk coverage, monitoring emerging risks, and making the best use of technology tools in cybersecurity efforts.

Leveraging the value of the Three Lines Model. The IIA's Three Lines Model[6] enables organizations to identify structures and processes that best assist the achievement of objectives and that facilitate strong governance and risk management, including over cybersecurity. The Three Lines Model identifies key roles played by:

About The IIA

The Institute of Internal Auditors, Inc. is a global professional association with more than 218,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.

The IIA

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» The governing body, which is accountable to stakeholders for organizational oversight.

» Management, which acts to achieve organizational objectives.

» Internal audit, which provides independent and objective assurance on the achievement of those objectives.

Research has shown that cooperation among the three lines has a positive impact on the effectiveness of cybersecurity risk management. According to an article in the *ISACA Journal*[7], internal audit can offer valuable assurance and identify threats and vulnerabilities. This can include identifying cybersecurity trends and stakeholder expectations, making an initial cyber risk assessment, and defining effective audit criteria. In reporting and advising on their findings, "auditors can significantly help the [board of directors] exercise its oversight," the article states.

Ensuring internal audit's input is optimized. In many organizations, audit committees are responsible for addressing all types of risks, including cyber threats.[8] However, some assign cyber concerns to other committees, for a number of reasons. Depending on the size and industry of the organization and the threats it faces, the committee charged with overseeing cyber issues may be a separate cybersecurity committee, a risk committee, a technology committee, the nomination and governance committee, or another committee. Boards may determine that the audit committee already has a full plate or that it may not have the expertise necessary for oversight of cyber concerns, among other reasons.

Internal audit typically reports to the audit committee, but the organization may miss out on valuable cyber risk recommendations and assurance if internal audit does not also offer reports to any separate committee that is charged with cybersecurity. Having this relationship with whichever committee oversees cyber issues ensures that internal audit's insights are understood and effectively acted upon.

Identifying hidden threats. Boards may be surprised by the number of seemingly small oversights that can damage cybersecurity efforts and potentially lead to disaster. Internal audit can offer insights to help boards determine how well their organization's audit plan is able to identify overlooked threats and spot emerging risks. According to a Deloitte report[9], just a few of the cyber threats that management typically underestimates include:

» The range of former employees who can still log on to the system and the number of third-party vendors who have access to corporate systems. In both cases, companies may have little idea how many unidentified and unauthorized outside users can gain entry.

QUESTIONS FOR BOARD MEMBERS

» Are we making the best use of internal audit insight and advice in our strategic planning related to cybersecurity?

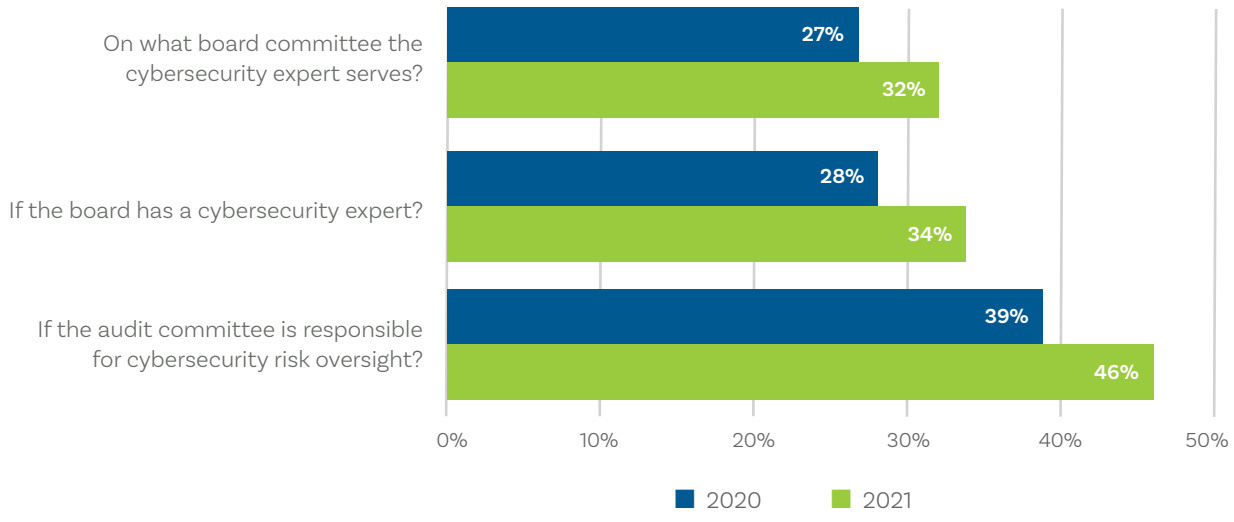
» Have we adequately staffed and funded cybersecurity efforts?

» Has the organization defined its risk tolerance when it comes to cybersecurity in financial terms?

» Is a specific committee assigned oversight of cybersecurity?

» Do directors understand the company's procedures in case of a cyber breach and know their own role if it happens?

How Many S&P 500 Companies Disclose:



Source: 2021 Audit Committee Transparency Barometer, Center for Audit Quality, November 2021.

» The number of cloud accounts the company uses. More engagement in the cloud can leave more openings for cyberattacks. The Deloitte report recommends that organizations ask cloud providers about infrastructure resilience, service downtime, performance, and other metrics, as well as about regulatory compliance and independent controls assessments.

» The actual total number of cyber breaches the organization has experienced. Counterintuitively, if the company has experienced few cyberattacks, that may be a warning sign that incidents simply aren't being detected. The internal audit team can help ensure these types of warning signs are being monitored.

Addressing concerns in business partner relationships. Gartner predicts[10] that by 2025, 60% of organizations will consider cybersecurity risk when engaging in third-party transactions and business engagements. Today, only 23% of security and risk management leaders monitor third-party cybersecurity exposure in real time, and they may limit their screening to immediate vendors and suppliers rather than their entire supply chain.

Once again, audit leaders, C-suite executives, and board members are not in sync on their opinions, according to OnRisk 2022. While CAEs rated organizational capability in this area at 37%, executives believe it stood at 53% and directors at 57%. Lower CAE confidence in this area likely stems in part from the higher relevance rating they assign to this risk, which was 17 points higher than directors' rating (77% vs 60%).

In any case, boards should ensure they gain the full value of internal audit's input and experiences in this area. Because internal audit works with teams throughout the organization, it can alert the board to cyber risks associated or identified with a particular vendor or across the entire supply chain. When the organization's business partners want reassurance about the reliability of its cybersecurity safeguards, internal audit can provide the kinds of data and assurance they are seeking.

Optimizing Resources

As organizations wrestle with daunting cybersecurity concerns, they will need to optimize all their existing resources. Boards can improve their company's security by understanding and taking advantage of the value that internal auditors can bring throughout the organization by identifying opportunities for enhancing efficiencies and effectiveness.

Endnotes

1 Principles for Board Governance of Cyber Risk, National Association of Corporate Directors, Internet Security Alliance, and World Economic Forum, In Collaboration with PwC, March 2021.

2 https://www.cisa.gov/circia

3 https://www.sec.gov/rules/proposed/2022/33-11038.pdf

4 Overseeing Cyber Risk: The Board's Role, PwC, January 2022.

5 OnRisk 2022: A Guide to Understanding, Aligning, and Optimizing Risk, The Institute of Internal Auditors, 2021.

6 The IIA's Three Lines Model: An Update of the Three Lines of Defense, The Institute of Internal Auditors, July 2020.

7 "How Effective Is Your Cybersecurity Audit?," Matej Drašček, et al., ISACA Journal, June 1, 2022.

8 "Cybersecurity: An Evolving Governance Challenge," Harvard Law School Forum on Corporate Governance, Phyllis Sumner, et al., March 15, 2020.

9 Internal Audit: Risks and Opportunities for 2022, Deloitte, 2021.

10 Predicts 2022: Cybersecurity Leaders Are Losing Control in a Distributed Ecosystem, Sam Olyaei, et al., Gartner, January 24, 2022.

Quick Poll Question

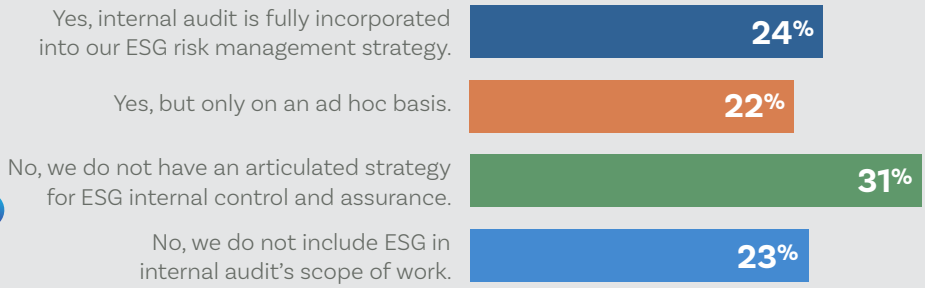
What board committee is charged with overseeing cybersecurity risk management for your organization?

- ◯ Audit committee
- ◯ Cybersecurity committee
- ◯ Technology committee
- ◯ Nomination and governance committee
- ◯ Other

Visit theiia.org/Tone to answer the question and learn how others are responding.

QUICK POLL RESULTS

Does your organization leverage internal audit for ESG assurance?



Source: Tone at the Top June 2022 Survey.

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The Institute of Internal Auditors

IIA POSITION PAPER

The Internal Audit Charter

A Blueprint to Assurance Success

Introduction

One of the great challenges every organization faces is assuring efficient and effective risk management — those policies and processes designed to leverage or mitigate risks to the organization's advantage. When done well, internal audit provides that assurance as part of its role to protect and enhance organizational value.

For internal audit to operate at the highest levels, it must have clearly defined and articulated marching orders from the governing body and management. This is most easily achieved with a well-designed internal audit charter.

The IIA's Perspective

Every organization can benefit from internal audit, and an internal audit charter is vital to success of the activity (IIA Standard 1000). The charter is a formal document approved by the governing body and/or audit committee (governing body) and agreed to by management. It must define, at minimum:

- Internal audit's purpose within the organization.
- Internal audit's authority.
- Internal audit's responsibility.
- Internal audit's position within the organization.

The IIA has produced model charters available to IIA members here in eight languages.

Why the Internal Audit Charter Is Important

A charter provides the organization a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit's independence.

Ideally it establishes reporting lines for the chief audit executive (CAE) that support that independence by reporting functionally to the governing body (or those charged with governance) and administratively to executive management. It also provides the activity the needed authority to achieve its tasks, e.g., unfettered access to records, personnel, and physical properties relevant to performing its work.

KEY TAKEAWAYS

The internal audit charter is vital to internal audit's success and should be reviewed annually by the governing body.

The internal audit charter should be approved by the governing body and agreed to by senior management.

The charter should at a minimum include internal audit's purpose and mission, authority, responsibility, its independent reporting relationships, scope and requirement to conform to IIA Standards.

The internal audit charter should include details of how the internal audit activity will assess and report on the quality of the internal audit activity.

A charter provides a blueprint for how internal audit will operate and allows the governing body to clearly signal the value it places on internal audit's independence.

Because internal audit can operate across the entire spectrum of industries, from financial services to chemical manufacturing to government, the audit charter allows the scope of internal audit activity to be defined specifically to unique needs of the organization.

The charter can provide — in great detail if desired — what work internal audit will undertake and the support it will receive from senior management and the governing body to achieve that work. Finally, the audit charter serves as a reference point to measure the effectiveness of the internal audit activity.

Vital Components of an Internal Audit Charter

The IIA has identified seven key areas that support the overall strength and effectiveness of the activity and should be covered in the internal audit charter. While some internal audit charters may not include all of these elements, any area the charter fails to address threatens to weaken it and, ultimately, the activity.

- Mission and Purpose:
  - Internal audit's **mission** is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
  - Internal audit's **purpose** is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations.
- *International Standards for the Professional Practice of Internal Auditing*:
  - The internal audit activity will govern itself by adherence to the mandatory elements of The IIA's International Professional Practices Framework (IPPF) including its *Standards,* Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, and Code of Ethics.
- Authority – The charter should include:
  - A statement on the CAE's functional and administrative reporting relationship in the organization.
  - A statement that the governing body will establish, maintain and assure that the internal audit activity has sufficient authority to fulfill its duties by:
    - Approving the internal audit charter.
    - Approving a timely, risk-based, and agile internal audit plan.
    - Approving the internal audit budget and resource plan.
    - Receiving timely communications from the CAE on performance relative to its internal audit plan.
    - Actively participating in discussions about and ultimately approving decisions regarding the appointment and removal of the CAE.

FIVE QUESTIONS

Stakeholders must send a clear and unambiguous message about internal audit's role in the organization.

Here are five key questions they should be asking:

1.
Has the governing body created an internal audit charter that establishes the activity's purpose and mission, scope, authority, responsibility, and reporting relationships?

2.
Does the charter address establishing reporting relationships that enable independence and objectivity of the CAE?

3.
Does the charter clearly establish internal audit's right to complete and unfettered access to all records and people to the extent necessary to carry out its work?

4.
Does the audit charter clearly define the responsibility of the CAE?

5.
In addition to requiring internal audit to comply with IIA global internal audit standards, does the audit charter require the activity to report on its effectiveness?

        - Actively participating in discussions about and ultimately approving the remuneration of the CAE.
        - Making appropriate inquiries of management and the CAE to determine if there are any inappropriate scope or resource limitations.
        - Developing and approving a statement that the CAE will have unrestricted access to, and communicate and interact directly with, the governing body without management present.
        - Developing and approving an authorization that the activity will have free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

- Independence and Objectivity – The charter should include:
    - A statement that the CAE will ensure that the internal audit activity remains free of conditions that threaten the ability of the activity to carry out its activities in an unbiased matter. If independence or objectivity is impaired in fact or appearance, the CAE will disclose the details of the impairment to the appropriate parties.
    - A statement that the internal audit activity will have no direct operational responsibility or authority over any of the activities audited.
    - A statement that if the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
    - A requirement for the CAE to confirm at least annually the independence of the internal audit activity to the governing body.
- Scope of Internal Audit Activities – The charter should include:
    - A statement that the scope of the internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.
    - A statement that the CAE will report periodically to senior management and the governing body on the results of its department and the work the activity performs.
- Responsibility – The charter should include:
    - Statements as to the responsibility for:
        - Submitting at least annually a risk-based internal audit plan.
        - Communicating with senior management and the governing body the impact of resource limitations on the plan.
        - Ensuring the internal audit activity has access to appropriate resources with regard to competency and skill.
        - Managing the activity appropriately for it to fulfill its mandate.
        - Ensuring conformance with IIA *Standards*.
        - Communicating the results of its work and following up on agreed-to corrective actions.
        - Coordination with other assurance providers.
- Quality Assurance and Improvement Program – The charter should include:
    - A statement that the internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including its evaluation of conformance to IIA *Standards*.
    - A requirement for the CAE to report periodically the results of its quality assurance and improvement program to senior management and the governing body and to obtain and external assessment of the activity at least once every five years.

Conclusion

The internal audit charter should be viewed by senior management and the governing body as an important board policy document that enables the CAE and internal audit activity to effectively carry out their roles in the organization. It establishes clarity among risk managers within the organization and among stakeholders of internal audit's role in the risk management process, and helps stakeholders to enable and measure internal audit's value to the organization.

A charter provides a blueprint for how internal audit will operate and allows the governing body to clearly signal the value it places on internal audit's independence.

About Position Papers

The IIA promulgates Position Papers on key issues of interest to stakeholders and practitioners with the aim of advocating for sound governance and educating those involved in it. The positions outlined offer insights into various aspects of the governance process and internal audit's vital role in improving governance at all levels and adding value to the organization. Position Papers are developed and reviewed through a rigorous process that solicits input and critique from practicing internal audit professionals and other IIA volunteers who serve on The IIA's Global Advocacy Committee, IIA Standards Board, and The IIA's Professional Responsibility and Ethics Committee.

About The IIA

The IIA is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The IIA's global headquarters are in Lake Mary, Fla. For more information, visit www.theiia.org.

Disclaimer

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January 2019

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