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

MONDAY, JULY 10, 2023
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: 689 218 678#

The public may participate and provide public comment during the meeting by attending the meeting in-person or by dialing the number provided above. Comments may also be submitted by email to the Board Secretary Jeanina Romero at jromero@ieua.org prior to the completion of the Public Comment section of the meeting. Comments will be distributed to the Board of Directors.

CALL TO ORDER

PUBLIC COMMENT

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

ADDITIONS TO THE AGENDA

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

*A Municipal Water District

1. ACTION ITEMS

A. MINUTES
Approve Minutes of the March 15, 2023 Audit Committee meeting.

B. **FISCAL YEAR 2023/24 ANNUAL AUDIT PLAN**
Staff recommends that the Committee/Board:

1. Approve the FY 2023/24 Annual Audit Plan; and

2. Direct the Manager of Internal Audit to implement the FY 2023/24 Annual Audit Plan.

2. **INFORMATION ITEMS**

A. **FISCAL YEAR 2022/2023 FINANCIAL AUDIT ENGAGEMENT COMMUNICATIONS (WRITTEN/POWERPOINT)**

B. **LARGE AND HEAVY-DUTY EQUIPMENT AND VEHICLE AUDIT (WRITTEN/POWERPOINT)**

C. **FOLLOW-UP REVIEW OF RECOMMENDATIONS RELATED TO AGENCY POLICIES AND ETHICS POINT, BOARD RESOLUTIONS, AND ADMINISTRATIVE HANDBOOK (WRITTEN/POWERPOINT)**

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

E. **REPORT OF OPEN AUDIT RECOMMENDATIONS AS OF JUNE 2023 (WRITTEN/POWERPOINT)**

F. **INTERNAL AUDIT QUARTERLY STATUS REPORT FOR JUNE 2023 (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
SPECIAL AUDIT COMMITTEE MEETING
OF THE BOARD OF DIRECTORS
INLAND EMPIRE UTILITIES AGENCY*

WEDNESDAY, MARCH 15, 2023
9:00 A.M.

COMMITTEE MEMBERS PRESENT
Paul Hofer, Chair
Steven J. Elie, Director

STAFF PRESENT
Shivaji Deshmukh, General Manager
Christiana Daisy, Deputy General Manager
Kristine Day, Assistant General Manager
Jerry Burke, Director of Engineering
Brandon Gonzalez Contreras, Technology Specialist I
Michael Larios, Technology Specialist I
Randy Lee, Acting Director of Finance
Denise Macias, Intern
Mahsa Mahdian, Accounting Office Assistant
Priscilla Mun, Accounting Technician
Sapna Nangia, Senior Internal Auditor
Rose Nguyen, Acting Accounting Supervisor
Dominic Palencia, Internal Auditor
Patrice Rivera, Accounting Technician
Jeanina Romero, Executive Assistant
Teresa Velarde, Manager of Internal Audit

STAFF PRESENT via Video/Teleconference
Deborah Berry, Controller
Javier Chagoyen-Lazaro, Director of Finance
Lisa Dye, Director of Human Resources
Jennifer Hy-Luk, Executive Assistant
Monica Nelson, Administrative Assistant II

OTHERS PRESENT via Video/Teleconference
None

Committee Chair Paul Hofer called the meeting to order at 9:04 a.m. He gave the public the opportunity to comment. There were no public comments received and no additions to the agenda.

1A. ACTION ITEM
The Committee:

◆ Approved the minutes of the December 12, 2022 Audit Committee meeting.

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

- ◆ Review of Pay Estimate Processes
- ◆ Progress Update for all Procure to Pay Audit Recommendations – Fifth Update
- ◆ Internal Audit Quality Control Review of the Annual Comprehensive Financial Report
- ◆ Internal Audit Quarterly Status Report for March 2023

3. AUDIT COMMITTEE ADVISOR COMMENTS
There were no Audit Committee Advisor comments.

4. COMMITTEE MEMBER COMMENTS
Director Elie asked if any local contracted agencies, cities, or water districts in both water and wastewater sectors have Internal Audit.

Manager of Internal Audit Teresa Velarde responded that it is her understanding that the City of Ontario has an Internal Audit function called something related to "Innovation, Performance Management and Audit."

Director Elie requested a link to the City of Ontario's Innovation, Performance Management and Audit Department.

5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS
There were no Committee member requested future agenda items.

ADJOURNMENT
With no further business, Committee Chair Hofer adjourned the meeting at 9:54 a.m.

Respectfully submitted,

Jeanina Romero
Executive Assistant

*A Municipal Water District

APPROVED: JULY 10, 2023

ACTION
ITEM

1B

Date: July 19, 2023

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

07/10/23

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Fiscal Year 2023/24 Annual Audit Plan

Executive Summary:

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

The Internal Audit Unit Charter and the Institute of Internal Auditors (IIA) auditing standards require that periodic risk assessments be performed to ensure information captured is relevant, timely, and aligned with the Agency's changing environment, goals, and objectives. IA performs the required risk assessment, prepares the Annual Audit Plan, and submits quarterly status reports and amendments, as required. The main audit projects proposed for the Fiscal Year (FY) 2023/24 include the following audits: Procurement Card, Payroll, Petty Cash, Accounts Receivable, and various follow-up reviews to evaluate the implementation status of prior audit recommendations. Additionally, IA is available to assist with questions related to Agency policies, processes, compliance, and efficiencies and to participate in various trainings, meetings, committees and discussions.

Staff's Recommendation:

1. Approve the FY 2023/24 Annual Audit Plan; and

2. Direct the Manager of Internal Audit to implement the FY 2023/24 Annual Audit Plan.

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):

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

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

                                                                                   -          -   -

Prior Board Action:

On December 21, 2022, the Board of Directors reconfirmed the approved Audit Committee and the Internal Audit Unit Charters. Both Charters require the Manager of IA to annually complete and present the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

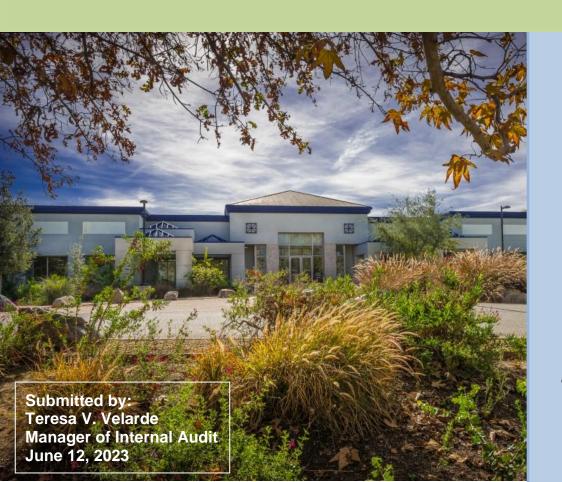Attachment 1 - FY 2023/24 Annual Audit Plan
Attachment 2 - PowerPoint

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Fiscal Year 2023-2024

Internal Audit Annual Audit Plan

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

Submitted by:
Teresa V. Velarde
Manager of Internal Audit
June 12, 2023

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Purpose of Internal Audit

According to the Board-approved Charter, the purpose of the Internal Audit Unit (Internal Audit or IA) is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities for reporting, internal controls, and compliance with legal and regulatory requirements applicable to Agency operations, and to provide objective assurance about the Agency's operations.

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

Guidance: International Standards for the Professional Practice of Internal Auditing

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

Independence

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

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Mission Statement and Values

The Internal Audit Unit seeks to improve the operations of the Agency by providing unbiased and objective assessments to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. The Internal Audit Unit will help the Agency achieve accountability and integrity, improve operations and instill confidence among its employees and the citizens it serves by:

- *Promoting a sound control environment.*
- *Providing independent, objective assurance and consulting services.*
- *Improving Agency risk management, control and governance.*
- *Promoting the Agency's vision and mission with a high degree of professionalism.*

Values

Internal Audit adopted the following value statements that form the foundation for the Internal Audit function:

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

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

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

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

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Purpose of the IA's Annual Audit Plan

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

The Audit Plan is a flexible plan of internal audit activities and was developed using an appropriate risk-based methodology, including any risks or control concerns identified or communicated by Management, the Internal Audit Unit, External Auditors, the Audit Committee's Independent Advisor, the Audit Committee or Board. Additionally, IA discussed with the Agency's legal counsel information that came through the Agency's anonymous hotline, Ethics-Point, to determine if any of the reported items are under the responsibility and scope of IA's activities or should be considered in planning audit projects. The overall objectives of the Annual Audit Plan are:

- to develop a plan of audit projects that is consistent with the Agency's goals and objectives,
- to address the potential risk areas within the Agency,
- to evaluate and contribute to the improvement of risk management, internal control, and governance processes, and
- to add value by recommending opportunities for improvements to increase effectiveness and efficiency of operations.

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

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

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

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

Annual Audit Plan Methodology

In planning for the IA projects, the following were also considered:

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

Fiscal Year 2023-2024 Annual Audit Plan

For the Fiscal Year 2023/2024 Annual Audit Plan, the audits were selected based on all things considered as discussed above, the results of audits completed, risks identified, discussions with key individuals and auditor judgement. Significant deviations and changes to the Audit Plan will be communicated to the Audit Committee through an Amended Audit Plan and progress information is provided through Quarterly Status Reports presented to the Audit Committee.

Audit of Agency Procurement Card Program

The purpose is to analyze Procurement Card (P-card) program, including the internal controls related to issuance, monitoring, and reviewing P-card transactions to determine compliance with Agency policy requirements. Evaluate transactions and review supporting documentation to determine if transactions were appropriately approved and made and expenses were for the benefit of Agency business operations. Because the fuel card program was absorbed by the P-card program, this review would also evaluate corrective actions and implementation procedures for the Fuel Card audit recommendations provided during a prior audit program. Evaluate internal controls related to accounts payable functions and evaluate the overall process for approvals, reconciliation and submitting of transaction information.

Payroll Audit

Payroll Operations Audits were performed in 2010, 2012 and again in 2017. The purpose is to analyze IEUA's payroll processes and records to ensure accuracy and compliance with regulations. To examine employee, pay rates, wages, and tax withholdings to ensure processes are up to date, legally compliant, and accurate. To evaluate if operational processes are efficient and compliance with Agency's policies and processes. To determine the effectiveness of a backup process and/or documented disaster recovery and business continuity plan for payroll operations.

Accounts Receivable Operational Audit

To evaluate internal control processes, examine receivable transactions for accuracy and determine compliance with Agency policies and procedures. Additionally, to determine if the Agency billed all revenue the Agency is entitled to, collected all revenue based on account billings, accounted for amounts owed and revenue received, and implemented policies and procedures to collect amounts owed.

Information Technology Physical Inventory and Internal Controls Audit

To evaluate compliance with policies and procedures, accountability and inventory controls of equipment purchased, assigned, and stored, disposal processes and controls, financial transactions and supporting documents of purchases to ensure compliance with all procurement policies. This project was planned in FY 21/22; however, the P2P audits took greater priority, additionally, there have been staffing and organizational changes within the department and currently management is implementing additional processes and systems that will require time for full implementation.

Petty Cash Review

To determine if internal controls and policies have been established for the proper safeguarding and handling and use of Petty Cash. To examine and determine if the Petty Cash fund is being used for the purpose it was set up for and to ensure transactions are properly approved, recorded and documented.

Cybersecurity Risk Assessment

Complete the risk assessment of the Agency's cybersecurity controls to evaluate the Agency's established security controls and monitoring of vulnerabilities and determine if the current program agrees with the Agency's objectives, risk appetite, and ability to respond to any events that occur.

Audit Software Tools

IA is evaluating the use of, the feasibility, available tools, efficiencies and overall benefits and considerations of audit software tools to improve reports, audit techniques and comply with audit workpaper retention and support requirements.

Fraud Training

IA staff will prepare and provide fraud awareness training to requesting departments. Statistics show that effective fraud awareness training can assist in mitigating the risk of fraud.

Follow-up Reviews to evaluate the status of outstanding audit recommendations

As required by the Charters and audit standards, IA will follow up on the status of outstanding recommendations to determine if corrective actions or alternate controls were implemented. As of June 2023, there are 115 outstanding recommendations: 31 related to the renegotiation of the Regional Contract which should be implemented with the finalization of the Contract, 12 relate to Agency Policy updates, HR has worked with LCW, an outside consultant who provided comments to all Agency Policies. HR should be working to make needed updates and implement the revised policies. In summary there are 40 recommendations eligible for follow up evaluation and 24 related to the P2P audits which are evaluated every quarter. See details on Page 9.

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Outstanding Audit Recommendations

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

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	FY 2023
Accounts Payable Follow-Up *(Deferred Recommendations related to Agency Policies)*	August 29, 2013	2	FY 2024
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2024
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2024
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2024
Payroll Operations Audit	August 30, 2017	5	FY 2024
Procurement Card Audit	March 1, 2018	7	FY 2024
Wire Transfers Audit	March 1, 2018	4	FY 2025
Inter-fund Transactions Audit	August 30, 2018	1	FY 2025
Accounts Payable Follow-Up Audit	May 30, 2019	4	FY 2024
Voyager Fuel Card Audit	May 30, 2019	4	FY 2024
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7	FY 2025
Recycled Water Revenues Audit	May 28, 2020	3	FY 2025
Human Resources: Workload Indicators Review	May 29, 2020	2	FY 2025
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	FY 2025
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) • Materials & Supplies (December 2022) • Pay Estimates (March 2023)	Dates noted on first column to the left	24	On-going
Regional Contract Review –Final Audit Report (planned for implementation with the renegotiation of the Regional Contract)	December 16, 2015	31	FY 2023
Total Outstanding Audit Recommendations		**115**	

Internal Audit
Fiscal Year 2023-2024 Annual Audit Plan

Summary of Outstanding Audit Recommendations

Of the 115 recommendations noted above, 102 are eligible for follow up evaluation as explained below:
- o 31 relate to the renegotiation of the Regional Contract,
- o 12 relate to upcoming updates to Agency policies which is being facilitated by an outside consultant working with Human Resources Department,

Eligible for follow up evaluation:
- o **24 recommendations relate to the ongoing P2P follow up reviews completed quarterly**
- o **48 recommendations are eligible for follow up evaluation**

See the Report of Open Audit Recommendations under separate cover.

On-going Audit Projects

- Internal Audit Unit Quality Assurance and Improvement Program

- Assist with annual ACFR Review and Filing

- Review and update IA Unit and Audit Committee Charters

- Continue to participate with the Safety Committee and the Technology/Cybersecurity Committee, additional task force and committees requested.

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

- Further utilize capabilities of SAP and other Agency software tools to enhance IA functions

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

- Conduct special requests and/or unforeseen projects that require immediate attention

- Provide recommendations to strengthen/streamline policies and procedures

- Update IA Annual Audit Plan and corresponding Risk Assessment

- Continue to work with auditees to resolve outstanding recommendations

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

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

- Continuous Professional Development and education of all auditors

- Plan, prepare and coordinate Audit Committee Meetings

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

- Provide "audit approach" presentations and fraud awareness training to requesting Units/Departments for/within professional associations as a guest speaker and for Agency-wide meetings

Long Range Audit Planning & Additional Audit Areas

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

Grants Operations Audit

To determine if grant administration complies with Federal/State requirements and regulations and agency policies. To ensure funding is effectively used for the purposes intended. Determine if internal controls are implemented to ensure accurate record keeping, quality assurance and identify areas for efficiencies.

Accounts Receivables Review - Monthly Sewer Billing

Evaluate compliance with the Agency's Ordinance 111 and/or Resolutions 2022-12-4 & 2022-12-5 and to evaluate how each of the contracting agencies apply the ordinance and ensure all monthly sewer billable units or fees is reported accurately, consistently, and completely. Evaluate that all internal controls are working as intended.

Accounts Receivables Review - Connection Fees

Evaluate compliance with the Agency's Ordinance 111 and Resolutions 2022-12-4 & 2022-12-5 to evaluate how each of the contracting agencies apply the ordinance and ensure connection fees are reported accurately. Evaluate that all internal controls are working as intended.

Accounts Payable Operations & Use of Esker

Evaluate the Accounts Payable operations' internal controls and processes to ensure there are sufficient procedures established to gather, account for, review, and process transactions accurately, timely, and in accordance with applicable policies and regulations. To evaluate internal controls related to the vendor master database maintenance to ensure vendors are legitimate and appropriate vendors and all required information is maintained. Additionally, to evaluate internal controls and processes with the use of Esker, the Agency's invoice recognition software system to ensure it is working as intended.

Fleetistics Use, Vehicle Maintenance and Maintenance Vendors Controls

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

Capital Projects

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

Records Management

To evaluate legal, regulatory and Agency policy compliance with records management requirements regarding creation, retention, maintenance, use and disposal, including an evaluation of internal controls and procedures related to the ownership, recovery, changes and sharing of records. To evaluate efficiencies in the processes and procedures.

Various or Other Agreements

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

Asset Management Audit

According to the Agency's Asset Management Plan, the current values for Agency assets are $845 million for replacement and $534 million for depreciation. An audit of this area would evaluate the accountability and controls to ensure assets are properly recorded in the Agency's financial records. Additionally, to determine if periodic inventories or other valuation processes are performed to validate the amount of assets reported in accounting records. Additional audit areas could include asset maintenance, preventive maintenance, internal controls to safeguard, evaluate and report the assets.

Operations Audit

Evaluate permit compliance requirements, preventive maintenance of plants or equipment, staff training and staff certifications to operate plants/facilities, chemical and equipment use, and customer service to the service area, where applicable.

Personal Computer Loan Program and Policy Compliance

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

Safety & Security Audit

To evaluate the effectiveness of the Agency's safety/security programs and the current method and process for identifying, addressing, resolving, and mitigating hazards, vulnerabilities, threats, and risks to the safety and security of Agency personnel and assets. To evaluate internal controls in place to mitigate risks and dangers to life, health and property. Additionally, to evaluate policies in place to create a safe and healthy workplace.

Construction Project Audit

To evaluate internal controls with regards to the project's financial management and monitoring of costs, deliverables and requirements. To ensure any billing errors are detected and resolved and minimize the need for change orders or financial concerns. To evaluate the details of the contractor's invoicing activity to ensure only allowable costs according with the terms of the contract are paid. Identify areas for improvement.

Maintenance Audit

To evaluate how maintenance costs are recorded on the financial statements and determine if they are properly expensed or capitalized according to Agency and accounting rules and policies. Evaluate additional operational efficiencies.

Risk Assessment Strategy

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

The IIA IPPF defines Risk as follows:

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

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

The risk assessment is a general assessment performed using best practice guidance, professional judgment and consideration for the impact on the Agency's operations if the targeted units fail to function in the most effective and efficient manner or neglect to comply with required policies. In performing the Risk Assessment for this FY 2023/24 Annual Audit Plan, the following were considered:

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

Audit Universe

The IIA IPPF defines Universe as all possible auditable areas. For the purposes of this Annual Audit Plan, the universe includes all Agency Units/Departments, operations, contracts, transactions, processes, and activities.

Quality Assurance and Improvement Program

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

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

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

As part of IA's commitment for continued quality audit services, beginning FY 2023-24, IAD will perform internal assessments of the IAD. An external assessment by an independent reviewer is planned for FY 2024/25. Results will be presented and discussed at the regularly scheduled Audit Committee meetings.

Fiscal Year 2023/24 Annual Audit Plan

Teresa Velarde

Manager of Internal Audit

July 10, 2023

Fiscal Year 2023/24 Annual Audit Plan
Planning Considerations

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

Fiscal Year 2023/24 Annual Audit Plan Proposed Projects

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

- **Procurement Card Program Audit**
- **Payroll Audit**
- **Accounts Receivable Operational Audit**
- **Information Technology Physical Inventory and Internal Controls Audit**
- **Petty Cash Audit**
- **Cybersecurity Risk Assessment**
- **Follow-up on outstanding recommendations**

Fiscal Year 2023/24 Annual Audit Plan Proposed Projects

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Procurement Card Program Audit

- Authorized use
- Policy requirements
- Evaluate purchases
- Review approvals
- Review account codes
- Rebate program
- Identify opportunities for improvements

Petty Cash Audit

- Authorized use
- Reimbursement policy
- Review approvals
- Review account codes
- Identify opportunities for improvements

Fiscal Year 2023/24 Annual Audit Plan Proposed Projects

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

- Procurement Card Program Audit
- Payroll Audit
- Accounts Receivable Operational Audit
- Information Technology Physical Inventory and Internal Controls Audit
- Petty Cash Audit
- Cybersecurity Risk Assessment
- Follow-up on outstanding recommendations

Fiscal Year 2023/24 Annual Audit Plan
Outstanding Audit Recommendations

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	FY 2023
Accounts Payable Follow-Up *(Deferred Recommendations related to Agency Policies)*	August 29, 2013	2	FY 2024
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2024
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2024
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2024
Payroll Operations Audit	August 30, 2017	5	FY 2024
Procurement Card Audit	March 1, 2018	7	FY 2024
Wire Transfers Audit	March 1, 2018	4	FY 2025
Inter-fund Transactions Audit	August 30, 2018	1	FY 2025
Accounts Payable Follow-Up Audit	May 30, 2019	4	FY 2024
Voyager Fuel Card Audit	May 30, 2019	4	FY 2024
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7	FY 2025
Recycled Water Revenues Audit	May 28, 2020	3	FY 2025
Human Resources: Workload Indicators Review	May 29, 2020	2	FY 2025
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	FY 2025
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) • Materials & Supplies (December 2022) • Pay Estimates (March 2023)	Dates noted on first column to the left	24	On-going
Regional Contract Review –Final Audit Report (planned for implementation with the renegotiation of the Regional Contract)	December 16, 2015	31	FY 2023
Total Outstanding Audit Recommendations		**115**	

Report of Open Audit Recommendations

As of June 2023, 115 recommendations remain outstanding:

- 48 - are eligible for follow-up evaluation

- 24 - relate to ongoing P2P follow-up reviews completed quarterly

- 12 - require Agency policy updates

- 31 - renegotiation of the Regional Contract

Outstanding Audit Recommendations as of June 1, 2023

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

1 of 15

Fiscal Year 2023/24 Annual Audit Plan
On-Going Audit Projects

- ❖ IA Unit Quality Assurance and Improvement Program

- ❖ Assist with the annual review of the Annual Comprehensive Financial Report (ACFR) Review and Filing

- ❖ Review and update the IA Unit and Audit Committee Charters

- ❖ Continue to participate on the Safety Committee and the Technology/Cybersecurity Committee, additional task force and committees requested

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

- ❖ Further utilize capabilities of SAP to enhance IA functions

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

- ❖ Conduct special requests and/or unforeseen projects

- ❖ Provide recommendations to strengthen/streamline policies and procedures

Fiscal Year 2023/24 Annual Audit Plan
On-Going Audit Projects

❖ Update IA Annual Audit Plan and corresponding Risk Assessment

❖ Continue to work with auditees to resolve outstanding recommendations

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

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

❖ Continuous Professional Development and education of all auditors

❖ Plan, prepare, and coordinate Audit Committee Meetings

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

❖ Provide "audit approach" presentations to requesting departments

Fiscal Year 2023/24 Annual Audit Plan

Staff recommends the Board:

1. Approve the FY 2023/24 Annual Audit Plan; and

2. Direct the Manager of Internal Audit to implement the FY 2023/24 Annual Audit Plan.

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

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

INFORMATION
ITEM
2A

Date: July 19, 2023

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

07/10/23

Committee: Audit

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Fiscal Year 2022/2023 Financial Audit Engagement Communications

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Executive Summary:

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

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

Attached, are the Scope of Work letters which describe the terms and objectives of the financial audit services with CLA for the Fiscal Year ending June 30, 2023. During the Audit Committee meeting, Mr. Nitin Patel, CPA, Principal with CLA and Ms. Tiffany Fung, CPA, Manager with CLA will provide a presentation about the audit scope and approach, the required auditor communications and information on the new accounting requirements that apply to the Agency.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

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

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

-    -   -

Prior Board Action:

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

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Statement of Work - Audit Services - CLA
Attachment 2 - Statement of Work - Agreed Upon Procedures - CLA
Attachment 3 - CLA Audit Planning PowerPoint

IEUA Statement of Work - Audit Services

May 2, 2023

This document constitutes a statement of work ("SOW") to serve as an addendum to the Master Services Contract Number 4600003005 and 4600003007 made by and between CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") and Inland Empire Utilities Agency ("you," "your," or "the entity"). We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services CLA will provide for the entity as of and for the year ended June 30, 2023.

Nitin Patel and Kassie Radermacher are responsible for the performance of the audit engagement.

Scope of audit services
We will audit the financial statements of each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Inland Empire Utilities Agency, and the financial statements of the Chino Basin Regional Financing Authority and the related notes to the financial statements.

The Governmental Accounting Standards Board (GASB) provides for certain required supplementary information (RSI) to accompany the entity's basic financial statements.

The following RSI will be subjected to certain limited procedures, but will not be audited.

- Management's discussion and analysis.

- GASB-required supplementary pension and OPEB schedules.

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

- Schedule of expenditures of federal awards.

- Combining and individual fund financial statements and schedules.

Nonaudit services
We will also provide the following nonaudit services:

· Preparation of your financial statements and the related notes for the Chino Basin Regional Financing Authority only.

· Preparation of schedule of federal awards.

· Preparation of the Data Collection Form

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

Our audit will be conducted in accordance with U.S. GAAS; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards require us to be independent of the entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. Our audit will include tests of your accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express opinions and render the required reports.

We will apply certain limited procedures to the RSI in accordance with U.S. GAAS. However, we will not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We will also perform procedures to enable us to express an opinion on whether the supplementary information (as identified above) other than RSI accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole.

The objectives of our audit also include:

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

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

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe

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

We will issue written reports upon completion of our audit of your financial statements and compliance with requirements applicable to major programs.

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

It is our understanding that our auditors' report will be included in your annual report which is comprised of other information, including the introductory and statistical sections, and that your annual report will be issued at the same time as the financial statements. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Auditor responsibilities, procedures, and limitations

We will conduct our audit in accordance with U.S. GAAS, the standards for financial audits contained in *Government Auditing Standards*, and the Uniform Guidance.

Those standards require that we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. As part of our audit, we will:

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

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

• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the amounts and disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

• Management override of controls.

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

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

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

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

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

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

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

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

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

and other records used to prepare the financial statements or to the financial statements themselves.

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

Management responsibilities

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

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

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

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

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

You are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud; assessing the risk that the financial statements may be materially misstated as a result of fraud; and for informing us about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your

knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for implementing systems designed to achieve compliance with applicable laws and regulations and the provisions of contracts and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; identifying and ensuring that the entity complies with applicable laws, regulations, contracts, and grant agreements, including compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the entity's federal programs; and informing us of all instances of identified or suspected noncompliance whose effects on the financial statements should be considered.

You are responsible for taking timely and appropriate steps to remedy any fraud; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse that we may report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings; and to follow up and take prompt corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review.

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

You agree to inform us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements.

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

to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

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

Management is responsible for the preparation of other information included in your annual report. You agree to provide the final version of such information to us in a timely manner, and if possible, prior to the date of our auditors' report. If the other information included in your annual report will not be available until after the date of our auditors' report on the financial statements, you agree to provide written representations indicating that (1) the information is consistent with the financial statements, (2) the other information does not contain material misstatements, and (3) the final version of the documents will be provided to us when available, and prior to issuance of the annual report by the entity, so that we can complete the procedures required by professional standards. Management agrees to correct material inconsistencies that we may identify. You agree to include our auditors' report in any document containing financial statements that indicates that such financial statements have been audited by us.

Management is responsible for providing us with a written confirmation concerning representations made by you and your staff to us in connection with the audit and the presentation of the basic financial statements and RSI. During our engagement, we will request information and explanations from you regarding, among other matters, the entity's activities , internal control, future plans, specific transactions, and accounting systems and procedures. The procedures we will perform during our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the representations that we receive in the representation letter and otherwise from you. Accordingly, inaccurate, incomplete, or false representations could cause us to expend unnecessary effort or could cause a material fraud or error to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the entity's financial statements that we may fail to detect as a result of misrepresentations made to us by you.

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

Responsibilities and limitations related to nonaudit services

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

Use of financial statements

Should you decide to include or incorporate by reference these financial statements and our auditors' report(s) thereon in a future private placement or other offering of equity or debt securities, you agree that we are under no obligation to re-issue our report or provide consent for the use of our report in such a registration or offering document. We will determine, at our sole discretion, whether we will re-issue our report or provide consent for the use of our report only after we have performed the procedures we consider necessary in the circumstances. If we decide to re-issue our report or consent to the use of our report, we will be required to perform certain procedures including, but not limited to, (a) reading other information incorporated by reference in the registration statement or other offering document and (b) subsequent event procedures. These procedures will be considered an engagement separate and distinct from our audit engagement, and we will bill you separately. If we decide to re-issue our report or consent to the use of our report, you agree that we will be included on each distribution of draft offering materials and we will receive a complete set of final documents. If we decide not to re-issue our report or decide to withhold our consent to the use of our report, you may be required to engage another firm to audit periods covered by our audit reports, and that firm will likely bill you for its services. While the successor auditor may request access to our workpapers for those periods, we are under no obligation to permit such access.

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

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

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

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

Engagement administration and other matters

We expect to begin our interim audit in June 2023 and our final audit in September 2023.

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

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

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

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

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

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

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

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

Fees

Our professional fees are detailed in the table below, which is inclusive of a technology and client support fee of five percent (5%) of all professional fees billed. This estimate is based on anticipated cooperation from your personnel and their assistance with locating requested documents and preparing requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation.

Service	Professional Fee
Inland Empire Utilities Agency Financial Audit	$33,000
Inland Empire Utilities Agency Single Audit	$6,100
Chino Basin Regional Financing Authority Financial Audit	$4,500

Unexpected circumstances

We will advise you if unexpected circumstances require significant additional procedures resulting in a substantial increase in the fee estimate.

Changes in accounting and audit standards

Standard setters and regulators continue to evaluate and modify standards. Such changes may result in new or revised financial reporting and disclosure requirements or expand the nature, timing, and scope of the activities we are required to perform. For year ended June 30, 2023, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, may require additional audit work if the entity does not appropriately implement the standard. To the extent that the amount of time required to provide the services described in the SOW increases due to such changes, our fee may need to be adjusted. We will discuss such circumstances with you prior to performing the additional work.

Agreement

We appreciate the opportunity to provide to you the services described in this SOW as an addendum to the Master Services Contract Number 4600003005 and 4600003007 46, and believe this SOW accurately summarizes the significant terms of our audit engagement. This SOW and the Master Services Contracts constitute the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA related to audit services. If you have any questions, please let us know. Please sign, date, and return this SOW to us to indicate your acknowledgment and understanding of, and agreement with, the arrangements for our audit of your

financial statements including the terms of our engagement and the parties' respective responsibilities.

Sincerely,

CliftonLarsonAllen LLP

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

CLA

Client

CLA

Inland Empire Utilities Agency

Kassie Radermacher

Shivaji Deshmukh

Kassie Radermacher, CPA, CFE, Principal

Shivaji Deshmukh, General Manager

CLA

Nitin Patel

Patel, Nitin, Principal

Certificate of completion

IEUA Statement of Work - Audit Services	Pages: 13	Status: Done
Parties: 2	Variables: 171	Secrets: 0
Certificate pages: 1	Audit log pages: 0	Attachments: 0
TimeZone: America/Los_Angeles	Outlaw ID: -NSIR2AmDbaDz5iQyjrM	

Client (Party)	Signature	Timestamp
Shivaji Deshmukh	IP Address: 47.176.186.68	Viewed: 5/15/2023, 1:32:27 PM PDT
sdeshmukh@ieua.org	Signing location: On platform	Signed: 5/15/2023, 1:32:45 PM PDT
User ID: xT1CT2hSWFOvNwcHSBDakFzRwbf2	*Shivaji Deshmukh*	

Electronic record and signature disclosure

CLA (Party)	Signature	Timestamp
Kassie Radermacher, CPA, CFE	IP Address: 136.226.66.207	Viewed: 5/15/2023, 12:00:03 PM PDT
kassie.radermacher@claconnect.com	Signing location: On platform	Signed: 5/15/2023, 12:00:41 PM PDT
User ID: aGcBM1Y3quMvyh20JexbFUbNa0w2	*Kassie Radermacher*	

Electronic record and signature disclosure

Patel, Nitin	IP Address: 136.226.66.209	Viewed: 5/15/2023, 1:18:08 PM PDT
nitin.patel@claconnect.com	Signing location: On platform	Signed: 5/15/2023, 1:21:05 PM PDT
User ID: t4kLGVCdhmPGWDBR19nRpyX4RAz1	*Nitin Patel*	

Electronic record and signature disclosure

IEUA Statement of Work - Agreed-upon Procedures

May 2, 2023

This document constitutes a statement of work ("SOW") that serves as an addendum to the Master Services Contract Number 4600003005 made by and between CliftonLarsonAllen LLP ("CLA," "we," "us," and "our") and Inland Empire Utilities Agency ("you," "your," or "the entity"). We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services CLA will provide for the entity as of and for the year ended June 30, 2024.

Nitin Patel and Kassie Radermacher are responsible for the performance of the agreed-upon procedures engagement.

Scope, objective, and responsibilities

We will apply the agreed-upon procedures which Inland Empire Utilities Agency and the League of California Cities (as presented in the League Publication entitled "Article XIII⊠ B Appropriation Limit Uniform Guidelines") has specified and agreed to, listed in the attached schedule, to Appropriation Limit Worksheet No. 6 of Inland Empire Utilities Agency as of or for the year ended June 30, 2024. Inland Empire Utilities Agency is responsible for Appropriation Limit Worksheet No. 6.

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

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

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

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

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

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

Engagement administration and other matters
A list of information we expect to need for the engagement and the dates required will be provided in a separate communication.

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

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

Fees

Our professional fees is included in the audit fee for Inland Empire Utilities Agency. This estimate is based on anticipated cooperation from your personnel and their assistance with locating requested documents and preparing requested schedules. If the requested items are not available on the dates required or are not accurate, the fees and expenses will likely be higher. Our invoices, including applicable state and local taxes, will be rendered each month as work progresses and are payable on presentation.

Agreement

We appreciate the opportunity to be of service to you and believe this SOW accurately summarizes the significant terms of our engagement. This SOW and Master Services Contract Number 4600003005 constitutes the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this SOW, please sign, date, and return the enclosed copy to us.

Sincerely,

CliftonLarsonAllen LLP

CLA		**Client**
CLA		Inland Empire Utilities Agency
Kassie Radermacher		*Shivaji Deshmukh*
Kassie Radermacher, CPA, CFE, Principal		Shivaji Deshmukh, Principal
CLA		
Nitin Patel		
Patel, Nitin, Principal		

Schedule of Procedures to be Performed

1. We will obtain the completed Worksheet No. 6 for the year ended June 30, 2024, and compare the limit and annual adjustment factors included in that worksheet to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We will also compare the population and inflation options included in the aforementioned worksheet to those that were selected by a recorded vote of the Board of Directors.

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

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

Certificate of completion

IEUA Statement of Work - Agreed-upon
Procedures

Pages: 4

Status: Done

Parties: 2
Certificate pages: 1
Certificate pages:

Variables: 190

Secrets: 0

Audit log pages: 0

Attachments: 0

Outlaw ID: -NSlCWzrLRzlS-Bg23Lr

TimeZone: America/Los_Angeles

Client (Party)	Signature	Timestamp
Shivaji Deshmukh	IP Address: 47.176.186.68	Viewed: 5/15/2023, 1:31:06 PM PDT
sdeshmukh@ieua.org	Signing location: On platform	Signed: 5/15/2023, 1:31:32 PM PDT
User ID: xT1CT2hSWFOvNwcHSBDakFzRwbf2	*Shivaji Deshmukh*	

Electronic record and signature disclosure

CLA (Party)	Signature	Timestamp
Kassie Radermacher, CPA, CFE	IP Address: 136.226.66.207	Viewed: 5/15/2023, 12:02:35 PM PDT
kassie.radermacher@claconnect.com	Signing location: On platform	Signed: 5/15/2023, 12:04:19 PM PDT
User ID: aGcBM1Y3quMvyh20JexbFUbNa0w2	*Kassie Radermacher*	

Electronic record and signature disclosure

Patel, Nitin	IP Address: 136.226.66.209	Viewed: 5/15/2023, 1:01:32 PM PDT
nitin.patel@claconnect.com	Signing location: On platform	Signed: 5/15/2023, 1:17:01 PM PDT
User ID: t4kLGVCdhmPGWDBR19nRpyX4RAz1	*Nitin Patel*	

Electronic record and signature disclosure

Inland Empire Utilities Agency
Planning Presentation to Audit Committee

Fiscal Year 2022-2023

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Outline

- Scope of services for year ending June 30, 2023
- GASB Standards
- Auditor' responsibilities
- Planned scope and timing

Scope of Service

- Audit of the annual financial statements for the Inland Empire Utilities Agency and Chino Basin Regional Financing Authority for the year ending June 30, 2023, in accordance with Generally Accepted (US) and Governmental Auditing Standards

- Audit of federal grant expenditures under the Uniform Guidance

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

GASB Standards

- GASB 96 – Subscription-Based information Technology Arrangements

Auditor's Responsibilities

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

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

Auditor's Responsibilities

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

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

Planned scope and timing of audit

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

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

Planned scope and timing of audit

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

- Timing of work to be finalized with management

    o Interim fieldwork - June 2023

    o Final fieldwork – September 2023

    o Report issuance – December 2023

Nitin Patel, CPA
nitin.patel@claconnect.com

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

9

INFORMATION
ITEM
2B

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

Date: July 19, 2023

To: The Honorable Board of Directors

Committee: Audit

Teresa Velarde

From: Teresa Velarde, Manager of Internal Audit

07/10/23

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Large and Heavy-Duty Equipment and Vehicles Audit

Executive Summary:

IA completed the Large and Heavy-Duty Equipment and Vehicles Audit. The purpose of the audit was to evaluate the physical existence and condition, record-keeping, and internal controls over the large and heavy-duty assets. Additionally, to identify opportunities to improve operations. The audit found that Facilities & Water Systems Program manages 23 large and heavy-duty equipment and vehicles. The audit identified observations and provides 18 recommendations. IA recommends routine inspections be performed to identify items that require attention, for example the condition and safety of the assets. IA also recommends periodic reconciliations of all asset records be performed periodically to identify and resolve differences to ensure the financial statements represent the Agency's assets. IA also recommends updated and improved processes for recording and capitalizing assets to ensure compliance with accounting rules that require assets are capitalized when placed in operation. Accounting and Facilities should to work together to ensure the Agency is in compliance with accounting and capitalization best practices for inventorying, recording and capitalizing assets.

The report attached provides details of the audit 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:

 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 Large and Heavy-Duty Equipment and Vehicles audit scheduled in the Annual Audit Plan.

On December 21, 2022, the Board of Directors approved the Audit Committee and Internal Audit Unit Charters.

Environmental Determination:

Not Applicable

Business Goal:

The Large and Heavy-Duty Equiment and Vehicles audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Attachments:

Attachment 1 - Large and Heavy-Duty Equipment and Vehicles
Attachment 2 - PowerPoint

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

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

DATE: June 2, 2023

TO: Shivaji Deshmukh
            General Manager

FROM: Teresa V. Velarde
            Manager of Internal Audit

SUBJECT: Large and Heavy-Duty Equipment and Vehicles Audit

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) has performed an audit of the Agency's large and heavy-duty equipment and vehicles. 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.

Audit Objectives

The objective of the Large and Heavy-Duty Equipment and Vehicles Audit was to evaluate the various processes and determine whether operations are in accordance with established Agency policies. Additionally, to evaluate the internal controls in place and the procedures to record, inventory, safeguard, and inspect the Agency's large and heavy-duty equipment and vehicles. Lastly, to identify opportunities to improve operations.

The specific audit objectives were to:
- Evaluate the processes for recording, safeguarding, and managing large and heavy-duty equipment and vehicles
- Evaluate how the purchase and value of large and heavy-duty equipment and vehicles are recorded in the Agency's Annual Comprehensive Financial Report (ACFR)
- Determine if Standard Operating Procedures (SOPs) are established and followed
- Evaluate internal controls over assignments, inventory, and inspections
- Perform a physical observation of the assets
- Verify if periodic inventories and reconciliations are performed
- Evaluate the use of technology and reporting tools
- Identify opportunities for improvements

Water Smart - Thinking in Terms of Tomorrow

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

Audit Results – Executive Summary

As of April 2023, Facilities & Water System Program Unit (Facilities) manages 23 large and heavy-duty equipment and vehicles, including the purchasing, tracking, maintenance, inventory, and disposal processes. The audit identified opportunities to improve internal controls. The attached report provides the details of the observations and the 18 audit recommendations, the points below provide a summary:

- **Periodic observations are necessary**: IA performed physical inspections of the large and heavy-duty equipment and vehicles under the responsibility of Facilities. Currently, Facilities does not complete inspections to review the condition of the large and heavy-duty equipment and vehicles. IA identified items that require attention and recommends routine inspections (details in the report).

- **Periodic reconciliations are necessary:** There is no current process in place to reconcile the various asset listings for heavy equipment and vehicles, from Finance and Facilities. Several assets could not be reconciled because there was not one key identifying piece of information consistent across all reports and not all items are recorded on all lists. The lists do not match, and it is not possible to determine the actual assets of the Agency.

- **Recording and capitalization should be reviewed and verified:** Currently, the large and heavy-duty equipment and vehicles are recorded and capitalized after the established capital project, that the assets were budgeted and purchased under, is closed, instead of when the asset is placed in operation. This impacts the Agency's financial statements and the Agency's compliance with accounting requirements.

Acknowledgements

IA would like to extend our appreciation to staff who assisted us during this review, including staff from the following units/departments: Finance, Facilities, and Planning & Resources. The observations and recommendations in this report were shared with each of the respective units on May 23, 2023, their comments have been considered and where possible their responses have been incorporated. IA looks forward to the continued collaboration.

The Large and Heavy-Duty Equipment and Vehicles audit is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

TV:sn:dp

Background Information

Fixed assets (also capital assets or property, plant, and equipment) are any tangible assets with a useful life of more than one year and used in the operations of the organization, examples include land, buildings and facilities, machinery, equipment, furniture, vehicles, computer equipment, etc. Additionally, the type and quantity of fixed assets purchased are unique to each organization, and the recording and treatment must follow accounting principles and any regulatory guidelines.

The Agency owns and operates five water recycling treatment facilities to provide wastewater and water services, convert waste into compost, and generate energy from renewable sources. To support the day-to-day operations of its treatment plants and facilities, the Agency purchases various fixed assets, and certain types of fixed assets fall under the Agency's Fleet Management Program.

Fleet Management Program
Facilities oversees the Agency's Fleet Management Program, and includes assets such as autos, trucks and large and heavy-duty equipment and vehicles. For the Agency's Fleet Management Program, Facilities is responsible for purchase, inventory, inspection, maintenance, safeguarding, replacement, and disposal of the vehicles and large and heavy-duty equipment.

Prior Audit Report
The focus of this audit report is on the *Agency's large and heavy-duty equipment and vehicles* that fall under the responsibility of the Facilities. Autos and trucks were previously reviewed under a separate internal audit in 2021. Through this review IA will follow-up on the one outstanding audit recommendation related to reconciliation of asset records. For the vehicle audit reports, IA defers readers to those reports that are available on the Agency's intranet or can be requested from the Manager of Internal Audit.

Definition of Large & Heavy-Duty Equipment and Vehicles
The Planning & Resources Unit (P&R) provided the definition for large and heavy-duty equipment and vehicles: *Specialized vehicles or equipment that are designed for a specific purpose and used to perform material transportation, construction, or maintenance activities outside of general transportation purposes. These vehicles or equipment can be driven on the public streets (as applicable). Examples could include forklifts, manlift, trailers, cranes, backhoe loaders (and/or loaders of any kind), dozers, excavators, generators, motor grader, dump trucks and so on.*

This specialized equipment and vehicles are utilized at the Agency's treatment plants and the Inland Empire Regional Composting Authority. According to Facilities and P&R, the Agency has several different types of large, movable, and heavy-duty equipment and vehicles that can be categorized into the following sections:

*Source: Planning & Resources, provided on March 22, 2023.

Referencing the picture above, the table below outlines the categories of equipment, provides examples or descriptions of the type of equipment that fall within the category, and the responsible Agency Unit or Department for the use of each. Facilities is responsible to oversee the use of equipment in the categories of: **On-Road Diesel**, **Off-Road LSI**, and **Autos & Trucks**. Portable and Off-Road Diesel are the responsibility of other Agency units/departments.

IEUA Large and Heavy-duty Equipment and Vehicles		
Types of Facility Equipment	**Description**	**Unit/Department Responsible**
Portable Equipment	generators, trailers	Maintenance
On-Road Diesel [2]	dump truck, water truck, gapvax truck	**Facilities**
Off-Road Large Spark Ignition [3]	forklifts, cranes, manlifts	**Facilities**
Off-Road Diesel (ORD)	tractors, backhoes, loaders, dozers, excavators, and/or aerial lifts, off-road vehicles	IERCA [1]
Autos & Trucks	vehicles and trucks	**Facilities**

(1) IERCA = Inland Empire Regional Composting Authority
(2) On-Road Diesel are equipment and vehicles that can be driven on the public streets, diesel fueled and has gross vehicle weight rating greater than 14,000 pounds.
(3) Large Spark Ignition (LSI) are gas, propane, or compressed natural gas (CNG) fueled vehicles or equipment with 25 horsepower or more and greater than 1 liter displacement

Annually, P&R is required to report the Agency's large and heavy-duty specialized equipment that are considered Off-Road LSI and Off-Road Diesel to the California Air Resources Board (CARB). Reporting includes confirming the list of Agency equipment, and the number of hours each was used in order to be considered low-use equipment.

Inventory Management
Facilities uses Fleetistics (an on-board diagnostic system) to track, manage and monitor equipment and vehicles under their responsibility as part of the Agency's Fleet

Management Program. The Fleetistics trackers provide real-time data on use, maintenance, mileage (when applicable), and location of the asset. Two types of trackers were installed:

- *Geotab G09 GPS+ Telematics* (autos & trucks), and
- *Solar-Power Asset Tracker* (large and heavy-duty equipment or vehicle)

Below is an example of the Solar-Power Asset Tracker installed on an Agency forklift:

Financial Reporting of the Large and Heavy-duty Equipment and Vehicles
In the Agency's Annual Comprehensive Financial Report (ACFR), capital/fixed assets are reported on the Agency's *Statement of Net Position* under the Assets section in the line-item **Capital Assets, net of accumulated depreciation**. Note 7 of the Basic Financial Statements provides additional information about the Agency's *Change in Capital Assets*. Per Note 7, Total Capital Assets being depreciated were valued at $1,101,997,860 with a Total Net Book Value of $508,486,481 on June 30, 2022. Of the $1.1 billion, equipment consists of $283,239,374 (net book value $65,365,581), which is made of up of items such as Computer Equipment (97%), Office Furniture (1.6%) and Autos & Trucks (1.4%), which includes large and heavy-duty equipment and vehicles.

Information specific to the costs and value of the large and heavy-duty equipment and vehicles:

IEUA Only
FY 2021/22

Type of Equipment	Acquisition Cost	Accumulated Depreciation	Book Value
Total Equipment	**$283,239,374**	**$(217,873,794)**	**$65,365,580**
Autos & Trucks	$3,915,904	$(3,507,658)	$408,246
Large and Heavy-duty Equipment and Vehicles	$1,749,632	$(1,464,713)	$284,919

*Source: Agency's financial system (SAP) and Annual Comprehensive Financial Report (ACFR)

Inspections

Safety staff, within the Human Resources Department, perform annual inspections of the Agency's facilities. As part of those inspections, Safety staff may perform informal inspections on large and heavy-duty equipment and vehicles.

Agency staff who are authorized to operate the large and heavy-duty equipment and vehicles perform inspections prior to operating the equipment or vehicle. Additionally, staff are required to be certified to be able to operate and use the large and heavy-duty equipment or vehicle, such as forklifts, cranes, etc.

Each category of equipment has their own specific inspection. For example, cranes and fire extinguishers are required to have an annual inspection. Cranes are inspected by a contractor, and the inspection tag is documented by the contractor.

Policy, Standard Operating Procedures (SOPs) and other Guidance

Guidance related to large and heavy-duty equipment and vehicles:

Type of document	Number	Name/Title	Effective date/ Revision date
Department-specific SOP (Facilities) To onboard and manage large and heavy-duty specialized equipment and vehicles	No number assigned Documented by GHD	Process Mapping – Fleet Acquisition & Retirement Workflow (documented by GHD Advisory)	02/21/23
Agency Policy	A-25	Disposal of Surplus Agency Personal Property, Materials and Equipment	09/01/06
Department-specific SOP (Finance/Accounting)	FA PR-01	Policy of Tangible and Intangible Assets – SAP FY 20/21	07/01/20
California Code of Regulations sections (CARB)	California Code of Regulations sections 2449, 2249.1, 2449.2 and 2449.3 in title 13, article 4.8, chapter 9	Final Regulation Order General Requirements for In-Use Off-Road Diesel-Fueled Fleets	Effective 6/15/2008, Revised 12/14/2011
California Code of Regulations sections (CARB)	California Code of Regulations sections 2775, 2775.1, and 2775.2, title 13, chapter 15, article 2	Final Regulation Order Large Spark-Ignition Engine Fleet Requirements Regulation	Effective 5/12/2007 Revised 6/20/2017

Observations and Recommendations

The table that follows provides a list of internal audit observations and recommendations, along with the results of the review of the one open recommendation from 2021.

Observation/Finding	Recommendations	Impact/Effect of the Recommendation
Recommendations for Facilities:		

Results of Physical Observations
On April 5, 2023, IA was accompanied by Facilities staff to perform physical observations on a sample of 17 large and heavy-duty equipment and vehicles selected for review. For the 17 items, IA's physical inspections noted items that require attention:
See **Table 1** on page 15 for the details of the inspections.
- **Unable to locate asset**: 1 forklift could not be located; inspection could not be performed (VQUI 0810).
- **Untidy/Cleanliness**: 1 truck had empty plastic bottles left inside, interior vehicle cleanliness not acceptable (VQUI 1102).
- **Fire Extinguisher annual maintenance was not current**: 1 forklift, the tag on the fire extinguisher showed the "annual maintenance performed" was last in October 2020 (VQUI 0806).
- **Inspection tag Ink/Writing has disappeared**: 1 Genie Lift, ink and writing on Inspection Tag is no longer legible (VQUI 0804).
- **Inspection tag Writing has become faded and no longer legible**: 1 Crane, the All-American Crane (VQUI 8810).
- **Asset not yet recorded:** 1 Genie Lift, asset observed during inspection, but has not yet been recorded in the financial records (VQUI 2301).
- **IEUA logo is outdated and peeling off**: 1 Flatbed (VQUI 8908).
- **No asset identifier or missing letter on the Asset Identifier:** 1 Terex Crane, letter "**_V_**" is missing from the asset tag (VQUI 0700), 1 Forklift, no proper asset tag, "VQUI" is missing (VQUI 7235), and 1 Genie Lift, new asset and did not have asset tag identifier, VQUI 2301.
- **Identifying Information did not match:** 3 vehicles or equipment, information did not match (physical asset versus listing/records):
   o 1 RP-1 Genie Lift, model number did not match between the manufacturer tag and Fleetistics, included an extra number (VQUI 1101).
   o 1 Terex Crane, license plate number listed on the equipment did not match the information recorded in Fleetistics. (VQUI 0700).
   o 1 Crane, license plate number listed on the equipment did not match the information recorded in Fleetistics. (VQUI 8810).
- **Identifying information was not recorded:** 2 vehicles or equipment, license plate information was not recorded in Fleetistics (VQUI 9218, 8908)
	1. Facilities should take the lead to perform periodic physical inspections of all large and heavy-duty specialized equipment assigned under their responsibility as part of the Agency's Fleet Management Program. Inspections should evaluate if the vehicles or equipment contain the proper asset tagging or labeling, information is visible and legible on the manufacturer or maintenance tag, fire extinguisher tag is current and if the asset is accounted for. Inspections should be documented.
	
	2. Facilities should remind Agency staff about their responsibilities for keeping and maintaining Agency vehicles and equipment clean and presentable. Facilities may want to provide a list of things that should be maintained to ensure the upkeep of the equipment.
		Physical inspections validate the equipment's existence and evaluate the overall operational condition of the equipment. Additionally, performing periodic observations provides the opportunity to verify the information recorded in the asset lists and financial records.

SOP: No definition of Large and Heavy-Duty Specialized Equipment and Vehicles In February 2023, Facilities adopted their department SOP for Process Mapping-Fleet Acquisition & Retirement Workflow related to the acquisition and retirement of assets. According to Facilities, this SOP applies to both vehicles and large and heavy-duty equipment and vehicles. IA reviewed the SOP and throughout the document it references "fleet" or "vehicle", but there is no specific _definition_ for large, heavy-duty, or specialized equipment and vehicles. Vehicles are generally known as automobiles, sedans, and trucks, while the large and heavy-duty vehicles or equipment are specialized and typically include forklifts, manlifts, cranes, and so on.	3. Facilities should take the lead to update the SOP for Process Mapping-Fleet Acquisition & Retirement Workflow to include definitions for the type of vehicles or equipment that are covered by the SOP to ensure there is clarity about the vehicles covered under the SOP processes.	Having established and documented procedures that outlines and defines the specific assets covered, will provide clarity for the process.
Recordkeeping of Facilities Internal Reports: For large and heavy-duty equipment and vehicles, Facilities maintains the information for these assets in two systems, **Fleetistics** and **SAP Plant Maintenance (PM) module**. IA was provided the asset lists from these systems, and reviewed and reconciled the information, and noted the following: • _SAP PM report for large & heavy-duty equipment_ - information is not always recorded in these fields: model number, manufacturer and ManufPartNo. No data is recorded in the order column. • _SAP PM report for forklifts_ – information is not always recorded in the order and ManufPartNo fields. Additionally, no model number is recorded for VQUI7235 (forklift RP-2). • _Fleetistics report for large & heavy-duty equipment_ – license plate information is not recorded for 5 of the 11 assets listed in the report. (VQUI 2001, VQUI 2002, VQUI 8810, VQUI 8908, and VQUI 9218). • _Fleetistics report for forklifts_ – data in the serial number column is the information for the Fleetistics solar unit assigned, not the actual serial number assigned to the asset. IA observed in this report, the identifying information related to the asset is not recorded, including the asset's serial number, model number or manufacturer number or description.	4. Facilities should take the lead to review and perform periodic reconciliations of all internal asset lists and records, including the SAP PM module asset list and Fleetistics. Facilities should ensure asset lists are complete and include the asset's identifying information and all necessary details are populated on the list. Confirming information after the physical observations will facilitate ensuring information is current. For example, (i.e., vehicle number, license plate number or other identifying information). Any discrepancies identified should be investigated and resolved immediately.	Having an accurate and complete data in the asset listings provides a record of large and heavy-duty equipment in operation and ensures they have custody and control of the assets purchase by the Agency.

Recommendations for Accounting		

Recordkeeping & Review
IA reviewed the asset report from the **SAP FI module** that is maintained by Accounting and noted the following:
 	
• Vendor Part # column: asset tag numbers (i.e., VQUI or VATV) are not always recorded or recorded incorrectly. Of the 17 large and heavy-duty equipment and vehicles identified under the responsibility of Facilities:
    ○ 1 of 17 had the information recorded incorrectly (Asset No. 600639)
    ○ 9 of 17 had no asset tag number recorded (i.e., VQUI)
• Make/Model column:
    ○ 7 of 17 had no make/model number or information recorded
• Serial Number column:
    ○ 5 of 17 had no serial number recorded or information recorded
Having incomplete, incorrect or no data recorded in the fields does not allow for the assets to be verified or validated or cross-referenced with other asset reports.
	5. Accounting should the lead to review the asset list from SAP FI module and work with Facilities to ensure all asset identifying information is recorded and updated and to ensure complete information is listed. Information noted as missing or incorrect should be reviewed and updated with the correct information as soon as possible. Discrepancies identified should be investigated and resolved immediately.	Having an accurate and complete data in the asset listings provides a record of large and heavy-duty equipment in operation and ensures there is accountability of the assets purchased by the Agency.

Reconciliations of asset lists are not performed
IA was provided 4 different asset listings for the Agency's large and heavy-duty equipment and vehicles:
    • **Fleetistics**
    • **SAP PM module**
    • **SAP FI (financial) module**
    • **Assets report to CARB**
 	
Using the 4 different asset listings provided, IA attempted to complete a reconciliation of all lists provided to determine completeness, accuracy, and reliability of the reports managed by the different units and departments. IA noted the following:
 	
• Lists do not match and are difficult to reconcile and cross-check.
 	
• Lists have empty fields or incorrect information in the designated fields *(See Observation above).*
 	
• There is not one common, key identifying piece of information that is the same across all reports. The Asset List that Accounting maintains does not have the asset tag number consistently recorded. The *asset tag number* should be the one similar identifier. Facilities assigns an asset tag number for large and heavy-duty equipment when it places the asset in operation. Begins "VQUI" and proceeds
	6. Accounting should take the lead to perform periodic reconciliations of the SAP FI Module asset list against other internal asset lists and records from Facilities, ensure that the asset tag number for each large and heavy-duty equipment is recorded in the SAP FI module to ensure there is one key identifier across all lists. Discrepancies identified should be investigated and resolved immediately.
	
	7. Accounting should periodically share the asset listing for large and heavy-duty equipment and vehicles with Agency departments that manage and report assets and equipment to verify the asset information. The asset listing for large and heavy-duty equipment should be shared at minimum annually or more frequently. Accounting should work closely with the department to verify, confirm, and reconcile the asset lists.
		Having asset lists and reports that are accurate and complete with as much identifying information will ensure there is adequate tracking, record-keeping, and management of these fixed assets.
		
		Consistently recording the asset tag information in the SAP financial module ensures assets can be cross-referenced among all the various reports and systems. This key piece of identifying information can be used to validate the asset's existence and ensures accountability.

with a number. For example, a forklift located at Regional Plant No. 1 is assigned VQUI1802. • Two asset reports from the Agency's ERP system (SAP PM and SAP FI) do not interface with each other and contain different information. • Not all large and heavy-duty equipment and vehicles appear on all the reports or asset listings. See page 18 for the detailed results of the reconciliation.		
Useful lives assigned are not consistent with Accounting's SOP of tangible and intangible assets IA was provided the list of large and heavy-duty equipment by Accounting (within the Finance Department) as of March 31, 2023. Accounting records and capitalizes any fixed/capital assets purchased by the Agency, in accordance with their department-specific Standard Operating Procedure (FA PR-01, Policy of Tangible and Intangible Assets). IAs review noted 3 assets (or 12.5%) had useful lives assigned that were not consistent with Accounting's SOP (Policy of Tangible and Intangible assets). *See page 21 for the detailed results of the calculation.*	8. Accounting should take the lead to review the useful life assigned to the large and heavy-duty equipment and ensure they are consistently applied across the board. If there are any useful lives assigned that do not follow the capitalization procedures, then Accounting should take the lead to work with the departments to evaluate and assign the correct useful life to the asset in accordance with Accounting's SOP and other accounting guidance.	Having the correct useful life assigned to the large and heavy-duty equipment or vehicle ensures consistency in applying the information outlined in the SOP and allows for accurate calculation of the accumulated depreciation.
Accumulated Depreciation – Variances IA was provided the list of large and heavy-duty equipment by Accounting as of March 31, 2023. ***Depreciation*** is the process of allocating the cost of the asset over a period of time. For example, automobiles are assigned a 5-year useful life, and the cost is allocated over those 5 years. Each fixed/capital asset should be depreciated according to the useful life assigned in the SOP (FA PR-01, Policy of Tangible and Intangible Assets). SAP automatically calculates the Agency's depreciation for vehicles and large and heavy-duty equipment. IA performed a recalculation of the depreciation for large and heavy-duty equipment and noted some variances in the accumulated depreciation calculated. See table on page 22 for the detailed results of the recalculation.	9. Accounting should take the lead to evaluate the calculation for accumulated depreciation for large and heavy-duty equipment and make any updates to the depreciation amounts/calculation as required. Additionally, Accounting should take the lead to review and resolve the differences identified during this review. 10. Accounting should also take the lead to connect with the Agency's External Auditors and determine if any differences identified with accumulated depreciation impact the Agency's financial statements.	Having the correct useful life assigned to the large and heavy-duty equipment or vehicle ensures consistency in applying the information outlined in the SOP and correct and accurate calculation of the accumulated depreciation.
Crystal report in SAP Currently, there is no established process for departments to perform an inventory of assets assigned to them. Facilities does not have access to any asset or inventory reports from the SAP financial (FI) module and must contact Accounting for a list of the capital/fixed assets	11. Accounting should take the lead to work with IT to determine if an auto-generated report or ad-hoc report (such as a Crystal Report) can be developed for Agency units and departments to utilize and run and generate the list of fixed/capital assets assigned to their department,	Having a reporting tool for staff to be able to run and generate their fixed/capital asset reports will provide transparency and greater visibility of the

assigned to their department. The capital/fixed asset list from SAP (FI) module can be used by the department to perform a periodic reconciliation between SAP financial records and their internal reports.	cost center and under their responsibility. For the purpose of performing a reconciliation against the departments' internal asset list to verify accuracy and ensure completeness of all Agency records.	assets recorded in the financial system.
There is no process or requirement to ensure all assets are recorded when they are placed in operation as required by accounting rules. Fixed/Capital Assets that meet the definition of a fixed asset and criteria for capitalization should be recorded and accounted for as soon as it is placed in service in the Agency's SAP Financial (FI) module. Recording of assets should be timely, accurate and complete. During the physical observations, IA noted there was 1 forklift (VQUI 2301) that was recently purchased but had not yet been recorded in SAP. The reason this asset has not yet been recorded is because the project it was purchased under has not yet been closed. The Agency uses "projects" to plan, budget and purchase fixed/capital assets. The Agency's practice has always been to add the fixed assets that were purchased to the SAP Financial (FI) module **after the project has been closed**, **not when the asset has been placed into service**. Projects can be one year or multiple years, depending on the project's needs.	12. Accounting should take the lead to work with Facilities and other Agency departments to communicate and establish a policy and process to ensure all Agency assets are recorded on the financial statements as soon as they are placed into operation, instead of waiting for the project to be closed. Accounting must provide information or education, either create a new form and procedure, and work closely with all departments to monitor asset purchases that require capitalization.	Having a process in place that ensures fixed assets are recorded in the financial system as soon as they have been placed in operation ensures assets are recorded according to accounting rules and financial reporting is accurate and complete.

In the 2021, IA completed a follow up review and provided the following recommendation:

	Prior Recommendations from 2021 Agency Vehicle Operational Follow-Up Audit		
New #13	Prior Audit Recommendation from 2021 Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures (dated May 27, 2021) **2021 Recommendation Status:** **NOT IMPLEMENTED -** **RESTATED HERE in Recommendations 13-18** **2021 Recommendation #1:** Finance and Accounting Department (FAD) and Facilities Management should work together to reconcile the asset records in SAP: • The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency Departments.	***2023 Vehicle Recommendations*** 13. Accounting should take the lead and work closely with Facilities to reconcile the vehicle asset records in SAP by resolving differences in the various asset lists. 14. Accounting should take the lead and periodically share the Fixed Asset List Report from the SAP Financial Module with the respective Agency Departments to provide them a list of the vehicles listed as part of the financial asset information and request prompt updates if anything has changed.	Good accounting practices require asset records be reconciled periodically through physical observations or inspections to ensure all assets are accounted for and records are verified. Sharing the list will facilitate the reconciliation process. Completing the appropriate forms and

• Facilities Management should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc. • FAD should and will continue to provide on-going training and departments should reach out for additional information and guidance. • Facilities Management should document their own SOP for the process of adding, removing and tracking assets under their custody. IA performed a reconciliation of the asset listings for vehicles that were provided by Facilities and Accounting. See pages 24-26 for the detailed results of the reconciliation.	15. Facilities should take the lead to perform periodic reconciliations of all asset reports, ensure the same identifying information identify assets on all reports. Report updates and changes to Accounting promptly. 16. Facilities should take the lead to complete all needed documents and forms to promptly communicate to Accounting any new purchases and disposals. Work with Accounting to determine the appropriate timelines to report changes. 17. Accounting should take the lead to provide on-going continuous communication related to the information Accounting staff need to properly set up capital assets in the Agency's financial records and ensure asset records are updated. 18. Accounting should take the lead to update or develop a new form and/or process to use when new assets are purchased/added (i.e. vehicles, large and heavy-duty equipment and vehicles, etc.) instead of waiting for a project closure form to be submitted. Submission of the information in a timely manner ensures the Accounting can comply with required accounting rules and ensures the asset records in SAP and the financial statements are accurate.	reporting any new assets that have been purchased and placed in operation or disposed, ensures information the recorded timely and accurately reflected in the Agency's financial reporting. It is important for the departments to work together to ensure the financial statements are accurately represented and all accounting rules are followed.

Results of Physical Inspections

IA and Facilities staff performed a physical observation of 17 large and heavy-duty specialized equipment and vehicles. The purpose of the observations and inspections were to verify **physical existence** and **validate operational condition** of the assets. The inspections assessed the exterior and interior of the asset, such as: asset identification labeling (i.e., VQUI, license plate #), equipment usable, secured/locked, seatbelts, body damages (if applicable), warning or manufacturing labels are visible and legible, cleanliness and no loose items in the interior floor, review the operating manual/relevant documents, horn works (if applicable), and review status of the fire extinguisher (if applicable). The details of the results of the inspections are as follows:

Table 1 Summary of IA's physical observations			
Device # Selected from Facilities' List	**Asset Description**	**Location Equipment Inspected**	**Exceptions noted**
Items selected from the Listings/Reports provided (Asset Listing to Physical Asset)			
VQUI 1802	2018 CLARK FORKLIFT - RP1 OPS	RP-1:	• Asset exists, and observed at the assigned location • Fire extinguisher check was conducted and current • Inspection tag was present and updated • Fleetistics solar unit was attached • Asset appears on all three lists
VQUI 1101	RP-1 Genie Lift Z2445/25	RP-1	• Asset exists, and observed at the assigned location • Fleetistics solar unit attached • <u>Manufacturer tag versus Fleetistics:</u> Extra number included in the license plate field in Fleetistics; description noted Rp-1 Genie Lift Z2445/25. Model number per equipment is Z245/25, not Z2445/25, includes an extra "4" • Asset is on Fleetistics and the Financial Module, but not the SAP (PM)

VQUI 0700	TEREX CRANE - FORD L8000	RP-1	• Asset exists, and observed at the location
			• Fleetistics solar unit was attached
			• Asset appears on all three lists
			• License Plate number listed in license plate column/field in Fleetistics does not match the license plate number listed on the actual equipment
			  ▪ Fleetistics 495796
			  ▪ Heavy/large Equipment – 1261571 (CA Exempt)
			• Asset tag assigned is VQUI 0700, but on the actual vehicle the letter "*V*" is missing

VQUI 1102	RECYCLE WATER RESPOND TRUCK	RP-1	• Asset exists, and observed at this location • Fleetistics solar unit was attached • CA license plate CA1376603 • Asset is found on all three reports • <u>Untidy/cleanliness:</u> IA observed empty plastic bottles had been left inside the vehicles from the prior use
*VQUI 9218	FORD SAFETY VAN W/GRUMMAN BODY	RP-1	• Asset exists, and observed at this location • Fleetistics solar unit was attached • Facilities noted this vehicle is out of service because of possible engine leak

			• No license plate information listed in Fleetistics: license plate # per the actual equipment is CA license plate # 380424 IA suggests Facilities update Fleetistics with this information • Asset was on Fleetistics report and on PM Plant Maintenance Report but not on FI Financial Module Report (asset in the process of being disposed of) • Facilities also noted that they plan to dispose of this vehicle during the next cycle o VQUI0250 trailer replaces VQUI9218; VQUI0250 trailer is used for confined spaces & contains all the needed items
VQUI 8908	1989 FORD F-700 DIESEL (FLATBED)	RP-1	• Asset exists, and observed at the location • Fleetistics solar unit was attached • No license plate information listed in Fleetistics: License plate number of equipment is 209712. No license plate number listed in Fleetistics for this piece of equipment. IA suggests Facilities update Fleetistics with this information • IEUA Logo is peeling off and outdated (old logo) • Asset was on Fleetistics report and on PM Plant Maintenance Report but not on FI Financial Module Report
VQUI 0201	YALE FORKLIFT (WHSE)	RP-1	• Asset exists, and observed at this location • Fleetistics solar unit attached, but not working because there is no sunlight • Fire extinguisher was current • inspection tag was present and updated • Asset is present on the FI Financial Module in SAP and on PM Module (also on Planning's list), but not Fleetistics
VQUI 0806	FORKLIFT - RP1 MAINTENANCE	RP-1	• Asset exists, and observed at its location • Forklift dedicated to Maintenance Unit • No (Fleetistics) solar unit attached to this forklift. Per Facilities, no solar unit was attached because the forklift is located inside the maintenance shop/building, and the solar unit needs sunlight in order to be able to operate • inspection tag was present and updated • Fire extinguisher inspection was not current. Last inspection was October 2020. All others were fall of 2022 and should be annually maintained • Asset is present on the on PM Module (also on Planning's list), but not Fleetistics and the SAP (FI Module)
VQUI 0810	FORKLIFT – RP1 OPERATIONS	RP-1	• Asset was not located; inspection could not be conducted
Physical Asset to Asset Listings			
VQUI 0401	RP-5 FORKLIFT	RP-5	• Forklift was present and could be traced to the Fleetistics list and the SAP list • Model information matched • Fire Extinguisher was present, and check was updated • Asset is found on all three lists
VQUI 0804	Genie Lift	RP-5	• Asset exists and observed at the location • Asset contained proper device tagging number

			• All American Crane Maintenance inspection tag writing has disappeared and is not legible • Asset is on the Fleetistics list, but not the SAP PM or FI
VQUI 8810	FORD L-8000 DIESEL CRANE	RP-5	• Asset exists and observed at the location • Asset contained proper device tagging number • Asset is found on all three reports • All-American Crane Maintenance tag was completed, but is becoming illegible • <u>License Plate does not Match:</u> The License plate number (495796) does not match with the Fleetistics listing
*VQUI 2301	Facilities Genie Lift Model GS3369 DC	RP-5	• Asset is present and matched with the Fleetistics listing but not the SAP listing – appears to be a new asset • Asset did not contain the appropriate Device # Tagging yet • Facilities noted that this asset was brand new, but this asset was not listed on the SAP (FI module)
VQUI 7235	CAT Forklift	RP-2	• Asset was present and matched in Fleetistics and SAP • Asset contained the maintenance inspection tag • Asset contained a reviewed Fire Extinguisher • Asset did not have the proper device number tagging number tag appears to be an old method for tagging equipment not consistent with current tags and no "V" included • Asset was found on Fleetistics and SAP (PM) but is not on the Finance Module
VQUI 9216	Dump Truck	RP-2	• Asset exists and observed at its location • Asset is on Fleetistics and the SAP PM module, but not the Finance Module • Asset's license number matched with the license number in Fleetistics
VQUI 0400	RP-2 Cal-lift	RP-2	• Asset exists and observed at its location • Asset was present and could be traced to Fleetistics and the SAP (PM), but not SAP's FI • Asst contained current Fire Extinguisher inspection • Asset contained the maintenance inspection tag
VQUI 1103	CCWRF FORKLIFT FG40N	CCWRF	• Asset was present and could be traced to Fleetistics and the SAP (PM), but not SAP's FI • Asset contained a current Fire Extinguisher inspection • Asset contained the maintenance inspection tag

Results of Reconciliation of the Asset Listings

IA reviewed the asset lists for large and heavy-duty equipment and vehicles maintained by Facilities and compared this information to the asset listings retained in the Agency's financial system, SAP FI (financial) module and SAP Plant Maintenance (PM) module, and assets reported to the CARB. The following was noted:

• **SAP FI (financial) module** had *17* large and heavy-duty equipment and vehicles (Note: Original list provided had 117 items, but included items that are not considered large and heavy-duty equipment or not managed or under the responsibility of Facilities)

- **SAP PM module** had *23* large and heavy-duty equipment and vehicles
- **Fleetistics** had *21* large and heavy-duty equipment and vehicles
- **CARB** had *16* large and heavy-duty equipment and vehicles that are reported and broken out into two categories: Off-road Diesel and Large Spark Igniition

1. Compared the listings for large and heavy-duty equipment, **SAP FI (financial) module** to the **SAP Plant Maintenance (PM) module**, both reports generated from Agency's financial system (SAP):

   - 11 of the 17 (or 65%) assets selected (large & heavy-duty equipment under Facilites) *could not* be matched to the SAP PM module, as follows:

Number	Asset	Make/Model	Vendor Part #	Serial #	Invent #	Acquis. Val.	Acc. Dep	Book Value	Asset Description
1	600687	Not Listed	Not Listed	AX17C00316	04OE04002	$18,807.76	($18,807.76)	$0	RP2/RP5 FORKLIFT-TOWMOTOR I/C
2	600880	Not Listed	Not Listed	Not Listed	EN91037	88,682.95	(88,682.95)	$0	CRANES
3	600889	Not Listed	Not Listed	Not Listed	OLD05108	85,538.76	(85,538.76)	$0	KENWORTH TRUCK/ LOADING EQUIPM
4	600898	Not Listed	Not Listed	Not Listed	OP91037	15,692.71	(15,692.71)	$0	CATERPILLAR FORKLIFT
5	600963	Not Listed	Not Listed	1FDYW80U8GVA48289	04PA03025	50,735.72	(50,735.72)	$0	1FDYW80U8GVA48289 U2RP1-CRANE
6	602384	Z45/252W	Not Listed	Z452511A41422	EP10001.99	52,216.76	(35,391.37)	16,825.39	RP1 Boom 45' 2W Genie Manlift
7	602293	TZ34/20DC	VQUI502	TZ3415-1495	EP15002.00	27,356.40	(13,070.28)	14,286.12	RP1 40' Genie Manlift (Boom Lift)
8	604574	1-C40L	Not Listed	169981	EP18002.00	43,262.54	(9,133.20)	34,129.34	RP1 Forklift
9	700124	2013 ARGO 750 HDI	VATV1401	2DGSSOBT9DNP33599	RW14001.00	27,774.84	(27,774.84)	$0	RP1 2013 Terrain Vehicle w/steel trailer & Spray Unt
10	604620	Not Listed	Not Listed	Not Listed	EN14019.00	138,810.19	(29,304.37)	109,505.82	RP1 Jib Crane
11	601473	Not Listed	Not Listed	Not Listed	EC07002	3,726.75	(3,726.75)	$0	ER TRAILER ARROW LIGHT BOARD

2. Compared the listings for large and heavy-duty equipment, **SAP PM module** to **SAP FI (finanical) module**, both reports generated from Agency's financial system (SAP):

   - 17 of the 23 (74%) assets (large & heavy-duty equipment under Facilites) *could not* be matched to the SAP FI module:

Number	Equipment	Description	Object type	Model Number	Manufacturer	ManufPartNo.	User Status
1	VQUI0400	TOWMOTOR FORKLIFT - RP5	HVEQ	TGP25	CAL-LIFT	None listed	INUS
2	VQUI0401	2016 CLARK FORKLIFT - RP5	HVEQ	C40L	CLARK	None listed	INUS
3	VQUI0500	MITSUBISHI FORKLIFT - DESALTER	HVEQ	FG25N	MITSUBISHI	None listed	INSU
4	VQUI0800	SCISSOR LIFT *deleted* sent to auction	HVEQ	65700-030	Upright	None Listed	INSU
5	VQUI0806	FORKLIFT - RP1 MAINTENANCE	HVEQ	P6000	CAT	None Listed	INSU
6	VQUI0810	FORKLIFT - RP1 OPERATIONS	HVEQ	P6000	CATERPILLAR	None Listed	INSU
7	VQUI1103	CCWRF 2012 FORKLIFT MITSUBISHI	HVEQ	FG40N	MITSUBISHI	None Listed	INSU
8	VQUI1802	2018 CLARK FORKLIFT - RP1 OPS	HVEQ	C40L	CLARK	None Listed	Not listed
9	VQUI2000	2020 CLARK FORKLIFT - RP4 OPS	HVEQ	C40L	CLARK	SS35014A20	INSU
10	VQUI7201	FORKLIFT - RP-4 (PROPANE)	HVEQ	GP-30	CATERPILLAR	None Listed	INSU
11	VQUI7235	FORKLIFT - RP-2	HVEQ	Not Listed	CATERPILLAR	None Listed	INSU

12	VQUI2001	2020 WESTERN STAR GAPVAX COMBO TRUCK	HVEQ	Not Listed	DAIMLER	None listed	INUS
13	VQUI2101	2101 (DUMPTRUCK)	HVEQ	Not Listed	Not Listed	None Listed	Not Listed
14	VQUI2002	WATER TRUCK FREIGHTLINER	HVEQ	Not Listed	Freightliner	None Listed	INSU
15	VQUI8908	1988 FORD L-8000	HVEQ	Not Listed	Not Listed	None Listed	INSU
16	VQUI9216	1993 INTERNATIONAL 4700 (DUMPTRUCK)	HVEQ	Not Listed	Not Listed	None Listed	INUS
17	VQUI9218	FORD SAFETY VAN W/GRUNMAN BODY	HVEQ	Not Listed	Not Listed	None Listed	INUS

3. Compared the **Fleetistics** to **SAP PM module**:

- 3 forklifts on the Fleetistics list **_could not_** be matched to the SAP PM module list (VQUI 0804, VQUI 1101, VQUI 2301).

4. Compared **SAP PM module** to **Fleetistics**:

- 4 forklifts on the SAP PM module list **_could not_** be matched to the Fleetistics list (VQUI 0201, VQUI 0806, VQUI 0810, and VQUI 7201).

5. Compared **Fleetistics** to **SAP FI (financial) module):**

- 15 of the 21 (or 71%) assets (large & heavy-duty equipment under Facilites) **_could not_** be matched to the SAP FI (financial) module):

Number	Equipment	Description	Last Stop Address	VIN Number	Serial No.	License Plate (If applicable)
1	VQUI0400	Rp-2 Cal-lift	RP-2	Not Listed	CY33211C1C0C	N/A
2	VQUI0401	RP-5 FORKLIFT	RP-5	Not Listed	CY9C20FC96CE	N/A
3	VQUI0500	CDA FORKLIFT	CDA	Not Listed	CYA120FC93F0	N/A
4	VQUI0804	Genie Lift	RP-5	Not Listed	CY3F211C1705	N/A
5	VQUI1103	CCWRF FORKLIFT FG40N	CCWRF	Not Listed	CYA520FC91F2	N/A
6	VQUI1802	RP-1 FORKLIFT C40L	RP-1	Not Listed	CYA320FC99FC	N/A
7	VQUI2000	RP-4 FORKLIFT	RP-4	Not Listed	CY9F20FC99C0	N/A
8	VQUI2301	Facilities Genie Lift Model GS3369	RP-5	Not Listed	CY50211C0D7C	N/A
9	VQUI7235	CAT Forklift	RP-2	Not Listed	CYA320FCA0C7	N/A
10	VQUI2001	Gapvax Truck	13050 Marlay Ave, Fontana, CA	5KKHAVDV6LLLU8325	Not Listed	0
11	VQUI2002	RP-4 Water Truck	RP-4	3ALACXFC2MDMR9455	Not Listed	0
12	VQUI2101	DUMP TRUCK	RP-4	1FDXF7DC7MDF06137	Not Listed	1614169
13	VQUI8908	FORD F-700 DIESEL (FLATBED)	RP-1	1FDXK74PXKVA37048	Not Listed	0
14	VQUI9216	RP-1 Dump Truck	RP-1	1HTSCPMP6PH464649	Not Listed	331434
15	VQUI9218	SAFETY VAN	RP-1	1FVACWDU69DAG1003	Not Listed	0

6. Compared **SAP FI (financial) module** to **Fleetistics**:

- 11 of the 17 (or 65%) assets (large & heavy-duty equipment under Facilites) **_could not_** be matched to Fleetistics:

Number	Asset	Make/Model	Vendor Part #	Serial #	Inventory #	Acqui. Val.	Acc. Dep.	Book Value	Asset Description
1	600639	GLP050RGNUAE	GLP050RGNUAE	A875B15294Y	02MM02002	$22,695.38	$(22,695.38)	$0	RP1-Warehouse Forklift
2	600687	Not Listed	Not Listed	AX17C00316	04OE04002	18,807.76	(18,807.76)	$0	RP2/RP5 FORKLIFT-TOWMOTOR I/C
3	600880	Not Listed	Not Listed	Not Listed	EN91037	88,682.95	(88,682.95)	$0	CRANES
4	600889	Not Listed	Not Listed	Not Listed	OLD05108	85,538.76	(85,538.76)	$0	KENWORTH TRUCK/LOADING EQUIPM
5	600898	Not Listed	Not Listed	Not Listed	OP91037	15,692.71	(15,692.71)	$0	CATERPILLAR FORKLIFT
6	600963	Not Listed	Not Listed	1FDYW80U8GVA48289	04PA03025	50,735.72	(50,735.72)	$0	1FDYW80U8GVA48289 U2RP1-CRANE
7	603293	TZ34/20DC	VQUI502	TZ3415-1495	EP15002.00	27,356.40	(13,070.28)	14,286.12	RP1 40' Genie Manlift (Boom Lift)
8	604574	1-C40L	Not Listed	169981	EP18002.00	43,262.54	(9,133.20)	34,129.34	RP1 Forklift
9	700124	2013 ARGO 750 HDI	VATV1401	2DGSSOBT9DNP33599	RW14001.00	27,774.84	(27,774.84)	$0	RP1 2013 Terrain Vehicle w/steel trailer&Spray Unt
10	604620	Not Listed	Not Listed	Not Listed	EN14019.00	138,810.19	(29,304.37)	109,505.82	RP1 Jib Crane
11	601473	Not Listed	Not Listed	Not Listed	EC07002	3,726.75	(3,726.75)	$0	ER TRAILER ARROW LIGHT BOARD

7. Compared **CARB** to **Fleetistics**:

- 8 of the 16 (5 off-road diesel and 3 large spark ignition) assets ((large & heavy-duty equipment under Facilites) ***could not*** be matched to Fleetistics:

Number	Equipment	Vehicle type	Manufacturer	Model Number	Serial No.
1	VQUI2105	Skid Steer Loads	Case	2V280B	NMM404158
2	VQUI1509	Tractors/Loaders/Backhoes	DEERE	6175R	PE6068U021367
3	VQUI0200	Tractors/Loaders/Backhoes	CATERPILLAR	924G	8XJ02864
4	VQUI0807	Tractors/Loaders/Backhoes	DEERE	210LE	T0210LE882738
5	VQUI9700	Tractors/Loaders/Backhoes	CATERPILLAR	416C	5YN02173
6	VQUI0201	Forklifts	MITSUBISHI	N/A	NS7R47
7	VQUI0806	Forklifts	CATERPILLAR	N/A	AT3400037
8	VQUI7201	Forklifts	CATERPILLAR	N/A	7AM01238

8. Compared **CARB** to **SAP PM module**:

- 6 of the 16 (6 off-road diesel and 0 large spark ignition) assets (large & heavy-duty equipment under Facilites) ***could not*** be matched to SAP PM module:

Number	Equipment	Vehicle type	Manufacturer	Model Number	Serial No.
1	VQUI2105	Skid Steer Loads	Case	2V280B	NMM404158
2	VQUI1509	Tractors/Loaders/Backhoes	DEERE	6175R	PE6068U021367
3	VQUI 1101	Aerial Lifts	GENIE	Z-45/25	Z452511A41422
4	VQUI0200	Tractors/Loaders/Backhoes	CATERPILLAR	924G	8XJ02864
5	VQUI0807	Tractors/Loaders/Backhoes	DEERE	210LE	T0210LE882738
6	VQUI9700	Tractors/Loaders/Backhoes	CATERPILLAR	416C	5YN02173

Results of Analysis - Asset Useful Lives & Captitalization

IA reviewed the list of large and heavy-duty equipment provided by Accounting (within the Finance Department) and compared the information to the department's SOP, specifically the useful life assigned to the asset. Listed below are the asset categories that large and heavy-duty equipment would be related to in the SOP, Section 2.03 (Asset life determination), Number 1:

IEUA Fiscal Management Operating Policies and Procedures Handbook Policy of Tangible and Intangible Assets – SAP FY 20/21 Procedure No: FA PR – 01 Revision No. 10 Effective Date: 07/01/20		
Asset Categories	**Asset Class**	**Life in years**
D. Equipment	F170600	5,10, or 15
G. Automobiles, Trucks, Motorized equipment & trailers	F170700	5
H. Specialized Equip	F170600-170606	3

Using the Asset Class assigned, for each large and heavy-duty equipment or vehicle, IA compared the useful life assigned in SAP to the useful life listed in the SOP. IA noted the following differences:

IEUA Large & Heavy-duty Equipment and vehicles Useful Life Assignments					
Asset Class	**Asset Number**	**Asset description**	**Date Capitalized**	**Useful Life assigned in SAP**	**Useful Life per SOP (FA PR-01)**
F170606	600639	RP-1 Warehouse Forklift	06/30/2002	7 years	3 or 5
F170700	700030	1988 Ford L-8000 Diesel Crane	9/13/1988	8 years	3 or 5
F170605	601473	ER Trailer Arrow Light Board	6/30/2007	7 years	3 or 5

Results of Analysis – Depreciation Calculation

Accounting provided the list of large and heavy-duty equipment as of March 2023. IA reviewed the list and compared the useful life assigned for each individual equipment or vehicle to the department's SOP, and then recalculated the accumulated depreciation using the appropriate useful life and straight-line depreciation method. IA noted the following variances:

	IEUA **Large & Heavy-duty Equipment and vehicles** **Recalculation of Accumulated Depreciation** Assets with Differences Only									
Asset Class	**Asset Number**	**Asset description**	**Date Capitalized**	**Useful Life assigned in SAP In years**	**Useful Life per SOP (FA PR-01) In years**	**Acquisition Value**	**Accumulated Deprecation**	**Book Value** *(as of 3/31/2023)*	**Accumulated Depreciation Recalculated by IA**	**Variance between SAP and Recalculation**
F170606	602384	RP1 Boom 45' 2W Genie Manlift	6/30/2013	15	15	$52,216.76	($35,391.37)	$16,825.39	$33,940.89	($1,450.48)
F170606	604574	RP1 Forklift	6/30/2020	15	15	$43,262.54	($9,133.20)	$34,129.34	$7,931.47	($1,201.73)
F170700	700175	RP5 Terex Crane	6/30/2020	15	15	$300,468.89	($190,296.97)	$110,171.92	$165,257.89	($25,039.08)
F170606	604620	RP1 Jib Crane	6/30/2020	15	15	$138,810.19	($29,304.37)	$109,505.82	$25,448.53	($3,855.84)

Accounting stated that they are evaluating the capitalization calculations and working to resolve and make needed updates. IA will continue to follow up.

Follow up on Prior Internal Audit Recommendations

For the 2021 recommendation that was provided, see the table on page 12 of the report.

Detailed Results of Reconciliation of the Listings for Vehicles

During the 2021 follow-up audit, IA reviewed the list of vehicles maintained by Facilities and compared the information to the asset listing retained in the Agency's financial system (SAP). At that time, IA determined the recommendation continued to be outstanding and additional time was required by both departments to maintain and reconcile vehicle asset records.

The details of the audit procedures and findings can be found in the following follow-up audit report: *Agency Vehicle Operational Follow-Up Audit: Review of Vehicle Inventory Procedures, dated May 27, 2021*. This report is available on the Agency's intranet or can be requested from the Manager of Internal Audit.

Since both vehicles (i.e., autos & trucks) and large and heavy-duty equipment and vehicles are managed by Facilities, IA determined it would be best to follow up on the open recommendation from 2021. Detailed below are the results of IA's 2023 follow-up review of the outstanding recommendation.

For the 2023 follow-up evaluation, IA reviewed the asset lists for vehicles maintained by Facilities and compared this information to the asset listings retained in the Agency's financial system, SAP FI (financial) module and SAP Plant Maintenance (PM) module.

Fixed asset listings provided:

- **SAP FI module** had **82** vehicles provided by Accounting
- **SAP PM module** had **115** vehicles provided by Facilities
- **Fleetistics** had **98** vehicles provided by Facilities, with an additional **15** vehicles placed with a status of surplus in Fleetistics. Note: Items on the surplus list have not been deleted or placed in the surplus designation in SAP

1. Compared the listings for vehicles (i.e. autos & trucks), **SAP FI (financial) module** to the **SAP PM module**, both reports generated from Agency's financial system (SAP):

   - 1 of the 82 vehicles could not be matched to the SAP PM module, VEH0608.

2. Compared the listings for vehicles (i.e. autos & trucks), **SAP PM module** to the **SAP FI (financial) module,** both reports generated from Agency's financial system (SAP):

- 32 of the 115 (or 28%) vehicles could not be matched to the SAP FI module, they are as follows:

Number	Equipment	Vehicle type	License Number	Vin
1	VEH0501	2005 FORD F150 X-CAB 4.6 L	1183225	1FTRX12W15NA89050
2	VEH0612	2006 FORD F-150 X- CAB	1202996	1FTRX12WX6KD28761
3	VEH0613	2006 FORD F-150 X- CAB	1202997	1FTRX12W16KD28762
4	VEH0702	2007 SD CHEVY MALIBU LS	1256940	1G1ZS58N07F175234
5	VEH703	2007 SD CHEVY MALIBU LS (0703)	1256939	1G1ZS58NX7F174298
6	VEH1505	2015 FORD TRANSIT VAN (1505)	1451803	NM0GE9E78F1224949
7	VEH1904	2019 FORD F150 XT CAB & LGBed RP5.	1573343	1FTEX1CP5KKE52291
8	VEH1905	2019 FORD F150 XT CAB & LGBed RP5-	1573344	1FTEX1CP7KKE52292
9	VEH1906	2019 FORD F150 XT CAB & LGBed RP5	1564717	1FTEX1CP0KKE83996
10	VEH1907	2019 FORD F150 XT CAB & LGBed RP4	1580457	1FTEX1E51KKE52395
11	VEH1908	2019 FORD ESCAPE SE FWD.	1564949	1FMCU0GD7KUA35734
12	VEH1909	2019 FORD ESCAPE SE FWD	1564946	1FMCU0GD5KUA80171
13	VEH1910	2019 Ford F150 PU Truck RP1	1564718	1FTEX1CP9KKE83995
14	VEH1911	2019 F150 XT CAB 4 x4 RP1	1573314	1FTEX1E56KKE52294
15	VEH1912	2019 Ford F150 PU Truck RP5	1573317	1FTEX1CP9KKE52293
16	VEH1913	2019 Ford F250 PU Utility Truck RP1.	1573316	1FD7X2A69KEF81766
17	VEH1914	2019 Ford F250 PU Utility Truck RP5	1573315	1FD7X2A60KEF81767
18	VEH1916	2019 Ford F250 PU Utility Truck RP4	1580458	1FD7X2A67KEF81765
19	VEH1917	2019 Ford F250 PU Utility Truck RP1	1580060	1FT7X2A67KEF81768
20	VEH1918	2019 FORD Van Cargo (1918)	1573345	1FTYR2XM8KKB47204
21	VEH2101	2021 FORD ESCAPE (2101)	1621824	1FMCUOG62MUA86109
22	VEH2102	2021 FORD ESCAPE (2102)	1621823	1FNCYIG66MUA86128
23	VEH2103	2021 FORD F150 (2103)	1625779	1FTMF1CB6MKF06591
24	VEH2104	2021 FORD F150 (2104)	1625778	1FTMF1CB8MKF06592
25	VEH2105	2021 FORD F150 (2105)	1625871	1FTMF1CBXMKF06593
26	VEH2201	2022 FORD F250 SERVICE BED (2201)	1634716	1FD7X2A6XNEE22016
27	VEH2202	2022 FORD F250 SERVICE 4X4 (2202)	1634715	1FD8X3B60NEE22017
28	VEH2203	2022 FORD ESCAPE (2203)	LIC#1639006	VIN#1FMCU0F63NUB00473
29	VEH2204	2022 FORD ESCAPE (2204)	LIC#1639007	VIN#1FMCU0F60NUB00379
30	VEH2205	2022 FORD RANGER (2205)	LIC#1639005	VIN#1FTER1EHXNLD37880
31	VEH2206	2022 FORD RANGER (2206)	LIC#1639164	VIN#1FTER1EH9NLD37918
32	VEH9902	2014 TOYOTA TACOMA -IERCF	1436262	5TFJX4CN8EX038427

3. Compared the listings for vehicles (i.e. autos & trucks), **SAP FI (financial) module** to **Fleetistics**:

- 1 of the 82 Vehicles could not be matched to the Fleetistics report.
  IA noted that 12 additional assets were placed with a status of surplus within Fleetistics.

4. Compared the listings for vehicles (i.e. autos & trucks), **Fleetistics** to the **SAP FI (financial) module**:

- 31 of the 98 (or 32%) vehicles could not be matched to the **SAP FI (financial) module**, they are as follows:

Number	Equipment	Vehicle type	License Number	Vin
1	VEH0501	2005 FORD F150 X-CAB 4.6 L	1183225	1FTRX12W15NA89050
2	VEH0205	2002 CHEVY 3/4 TON (0205)	1124371	1GCHC24Y82E110819
3	VEH0613	2006 FORD F-150 X- CAB	1202997	1FTRX12W16KD28762
4	VEH0712	2007 SD CHEVY MALIBU LS	1256940	1G1ZS58N07F175234
5	VEH1101	2011 FORD F250 PICKUP (1101)	1357389	1FT7X2A65CEA93243
6	VEH1505	2015 FORD TRANSIT VAN (1505)	1451803	NM0GE9E78F1224949
7	VEH1904	2019 FORD F150 XT CAB & LGBed RP5.	1573343	1FTEX1CP5KKE52291
8	VEH1905	2019 FORD F150 XT CAB & LGBed RP5-	1573344	1FTEX1CP7KKE52292
9	VEH1906	2019 FORD F150 XT CAB & LGBed RP5	1564717	1FTEX1CP0KKE83996
10	VEH1907	2019 FORD F150 XT CAB & LGBed RP4	1580457	1FTEX1E51KKE52395
11	VEH1908	2019 FORD ESCAPE SE FWD.	1564949	1FMCU0GD7KUA35734
12	VEH1909	2019 FORD ESCAPE SE FWD	1564946	1FMCU0GD5KUA80171
13	VEH1910	2019 Ford F150 PU Truck RP1	1564718	1FTEX1CP9KKE83995
14	VEH1911	2019 F150 XT CAB 4 x4 RP1	1573314	1FTEX1E56KKE52294
15	VEH1912	2019 Ford F150 PU Truck RP5	1573317	1FTEX1CP9KKE52293
16	VEH1913	2019 Ford F250 PU Utility Truck RP1.	1573316	1FD7X2A69KEF81766
17	VEH1914	2019 Ford F250 PU Utility Truck RP5	1573315	1FD7X2A60KEF81767
18	VEH1916	2019 Ford F250 PU Utility Truck RP4	1580458	1FD7X2A67KEF81765
19	VEH1917	2019 Ford F250 PU Utility Truck RP1	1580060	1FT7X2A67KEF81768
20	VEH1918	2019 FORD Van Cargo (1918)	1573345	1FTYR2XM8KKB47204
21	VEH2101	2021 FORD ESCAPE (2101)	1621824	1FMCUOG62MUA86109
22	VEH2102	2021 FORD ESCAPE (2102)	1621823	1FNCYIG66MUA86128
23	VEH2103	2021 FORD F150 (2103)	1625779	1FTMF1CB6MKF06591
24	VEH2104	2021 FORD F150 (2104)	1625778	1FTMF1CB8MKF06592
25	VEH2105	2021 FORD F150 (2105)	1625871	1FTMF1CBXMKF06593
26	VEH2201	2022 FORD F250 SERVICE BED (2201)	1634716	1FD7X2A6XNEE22016
27	VEH2202	2022 FORD F250 SERVICE 4X4 (2202)	1634715	1FD8X3B60NEE22017
28	VEH2203	2022 FORD ESCAPE (2203)	LIC#1639006	1FMCU0F63NUB00473
29	VEH2204	2022 FORD ESCAPE (2204)	LIC#1639007	1FMCU0F60NUB00379
30	VEH2205	2022 FORD RANGER (2205)	LIC#1639005	1FTER1EHXNLD37880
31	VEH2206	2022 FORD RANGER (2206)	LIC#1639164	1FTER1EH9NLD37918

Twenty-five (25) vehicles on the Fleetistics report were not on the SAP FI listing and appear to be newer vehicles (VEH1904-VEH2206). The acquisition value of these vehicles is approximately between $700K-$800K, which means the financial statements are understated and do not represent the true value of the assets and depreciation in the Annual Comprehensive Financial Report.

Additionally, six (6) vehicles listed in Fleetistics could not be matched and reconciled to the SAP FI listing and were identified in the prior follow up audits, **2018** and **2021**. (VEH 0501, VEH 0205, VEH 0613, VEH 0712, VEH 1101 and VEH 1505)

5. Compared the listings for vehicles (i.e. autos & trucks), **SAP PM module** to **Fleetistics**:

   - 3 of the 115 (or 3%) vehicles could not be matched to Fleetistics. IA noted that 15 additional vehicles were set to be deleted and were placed with a status of surplus within Fleetisitics.

6. Compared the listings for vehicles (i.e. autos & trucks), **Fleetistics** to **SAP PM module**:

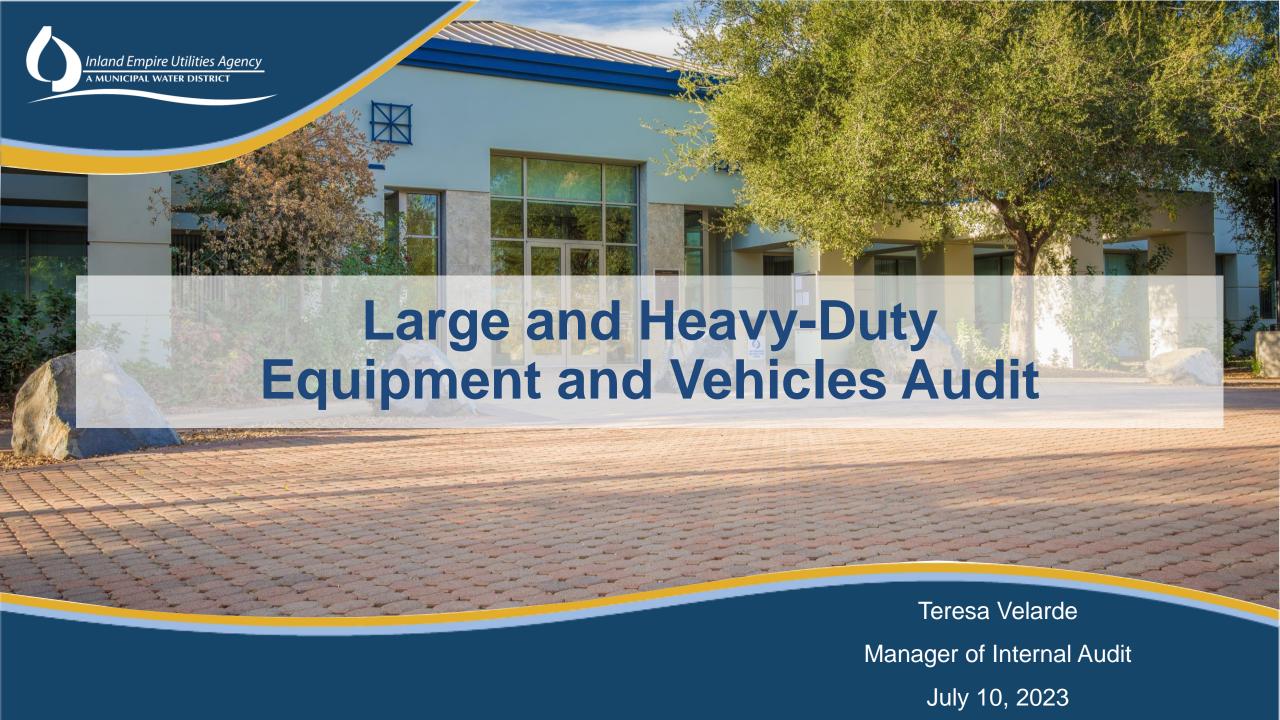- 1 of the 98 (or 1%) vehicles could not be matched to the SAP PM module, VEH0613.

As stated in IA's prior 2021 follow-up report, it is important that records be reconciled to ensure all assets are accounted for properly. According to both Facilities and Accounting, the fixed asset list for vehicles has been shared since our 2021 review, but Facilities is in the process of disposing vehicles and Accounting will not remove any assets from the list until all the proper forms, approvals and documentation have been received.

Vehicles that have been purchased by the Agency and placed into operation, the information must be provided to Accounting in a timely manner in order to ensure they are recorded in the financial system and accurately reflected on the financial statements. The Agency's practice has been to record and capitalize the assets after the project has been fully completed and closed, which could be months or years after the fixed assets were originally placed into service. This business practice or approach impacts financial reporting and presentation of the financial statements.

For this follow up, the 2021 audit recommendation originally provided is being **restated** and a breakdown of the different steps required to achieve complete implementation can be found on pages 12-14 of the report.

Conclusion
IA did not expand the scope of this audit to evaluate additional areas or operations within the Facilities Unit. Additional reviews will be scheduled through the Board-approved Annual Audit Plan. Please contact any member of the Internal Audit Unit for additional information.

Large and Heavy-Duty Equipment and Vehicles Audit

Teresa Velarde

Manager of Internal Audit

July 10, 2023

Large and Heavy-Duty Equipment and Vehicles Audit

- Audit Objective and Scope

- Definition of Fixed & Capital Asset

- Facilities oversees the fleet

- Results of Open Audit Recommendation from 2021

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Definition of Large & Heavy-duty Equipment/Vehicles

Specialized vehicles or equipment that are designed for a specific purpose and used to perform material transportation, construction, or maintenance activities outside of general transportation purposes.

IEUA's Large and/or Heavy-duty Equipment or vehicles		
Types of Facility Equipment	Description	Unit/Department Responsible
Portable Equipment	generators, trailers	Maintenance
On-Road Diesel	dump truck, water truck, gapvax truck	**Facilities**
Off-Road Large Spark Ignition	forklifts, cranes, manlifts	**Facilities**
Autos & Trucks	vehicles and trucks	**Facilities**

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Annual Comprehensive Financial Report for Fiscal Year 2021-2022

IEUA Only FY 2021/22			
	Acquisition Cost	**Accumulated Depreciation**	**Book Value**
Total Equipment	$283,239,374	$(217,873,794)	$65,365,580
Autos & Trucks	$3,915,904	$(3,507,658)	$408,246
Large and Heavy-duty Equipment and Vehicles	$1,749,632	$(1,464,713)	$284,919

- **Note 7**: Equipment (valued at $283,239,374) makes up 25% of the total Capital Assets ($1,101,997,860) listed in the ACFR as of June 30, 2022.

- Total Equipment category is made up of Computer Equipment, Office Furniture, and Autos & Trucks, which includes large and heavy-duty equipment and vehicles.

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Results of Physical Observations

Performed an inspection of 17 large and heavy-duty equipment and vehicles. Observed the following:

- 1 asset was not located
- 1 asset was untidy and not presentable
- 2 inspection tags were not legible
- 1 asset was not recorded in SAP
- 1 asset had an outdated IEUA logo and peeling
- 3 assets had incorrect identifying information
- 2 assets did not have identifying information recorded
- 3 assets had incorrect or missing asset identifiers

Missing the "V" in VQUI

Improper Asset Tag

Empty plastic bottles & trash

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Asset Records for Large and Heavy-duty Equipment and Vehicles

- **SAP FI (Financial) module** had *17* large and heavy-duty equipment and vehicles

- **SAP PM (Plant Maintenance) module** had *23* large and heavy-duty equipment and vehicles

- **Fleetistics** had *21* large and heavy-duty equipment and vehicles

- **CARB** had *16* large and heavy-duty equipment and vehicles that are reported and broken out into two categories: Off-road Diesel and Large Spark Ignition

Observations related to the
Reconciliation of Large & Heavy-Duty Equipment and Vehicles

- Not all reports match or agreed, reconciliation of listings identified differences, and requires follow-up and attention

- Incomplete or missing information in the lists

- No one key identifier across all reports and lists

Observations related to depreciation applied Results of IA's analysis

Useful lives

—3 assets that did not adhere to the useful lives assigned in the SOP.

IEUA Large & Heavy-duty Equipment and vehicles Useful Life Assignments					
Asset Class	Asset Number	Asset description	Date Capitalized	Useful Life assigned in SAP	Useful Life per SOP (FA PR-01)
F170606	600639	RP-1 Warehouse Forklift	06/30/2002	7 years	3 or 5
F170700	700030	1988 Ford L-8000 Diesel Crane	9/13/1988	8 years	3 or 5
F170605	601473	ER Trailer Arrow Light Board	6/30/2007	7 years	3 or 5

Accumulated Depreciation

—5 assets had a variance in accumulated depreciation recalculation compared with what recorded in SAP

IEUA Large & Heavy-duty Equipment and vehicles Recalculation of Accumulated Depreciation Assets with Differences Only										
Asset Class	Asset Number	Asset description	Date Capitalized	Useful Life assigned in SAP In years	Useful Life per SOP (FA PR-01) In years	Acquisition Value	Accumulated Deprecation	Book Value (as of 1/31/2021)	Accumulated Depreciation Recalculated by IA	Variance between SAP and Recalculation
F170606	602384	RP1 Boom 45' 2W Genie Manlift	6/30/2013	15	15	$52,216.76	($35,391.37)	$16,825.39	$33,940.89	($1,450.48)
F170606	603293	RP1 40' Genie Manlift	12/31/2015	15	15	$27,356.40	($13,070.28)	$14,286.12	$13,222.26	$151.98
F170606	604574	RP1 Forklift	6/30/2020	15	15	$43,262.54	($9,133.20)	$34,129.34	$7,931.47	($1,201.73)
F170700	700175	RP5 Terex Crane	6/30/2020	15	15	$300,468.89	($190,296.97)	$110,171.92	$165,257.89	($25,039.08)
F170606	604620	RP1 Jib Crane	6/30/2020	15	15	$138,810.19	($29,304.37)	$109,505.82	$25,448.53	($3,855.84)

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2021 Recommendation #1

Finance and Accounting Department (FAD) and Facilities Management should work together to reconcile the asset records in SAP:

- *The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency Departments.*

- *Facilities Management should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc.*

- *FAD should and will continue to provide on-going training and departments should reach out for additional information and guidance.*

- *Facilities Management should document their own SOP for the process of adding, removing and tracking assets under their custody.*

Status: Not Implemented

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Summary of 2021 Follow-Up Results

- Reconciliation of the vehicle asset listings identified differences, requires follow-up and attention.

- 31 new vehicles purchased since 2019 not recorded on the asset lists.

- Unrecorded assets can potentially impact the financial reporting.

Audit Observations & Recommendations

18 New Recommendations
6 for Facilities
12 for Accounting

Observations
Periodic physical inspections of assets
Periodic reconciliation of asset records
Recording and capitalization of assets

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

Questions?

INFORMATION
ITEM
2C

Date: July 19, 2023

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

07/10/23

Committee: Audit

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Follow-Up Review of Recommendations Related to Agency Policies and Ethics Point, Board Resolutions, and Administrative Handbook

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Executive Summary:

IA staff completed an evaluation of all prior audit recommendations related to the Agency's policies. In addition, IA staff evaluated the Agency's guidelines related to ethical conduct and conflict of interest and the reporting hotline reference information. The purpose of the review is to centralize, into one report and under one department's responsibility, the 12 outstanding audit recommendations related to the need to make updates to 19 existing Agency policies. Additionally, the purpose of this review is also to provide recommendations related to the Agency's reporting hotline webpage (EthicsPoint) and communicating the guidelines related to conflict of interest.

IA continues to work closely with the Human Resources Department (HR) to evaluate the need to address the items noted above. HR stated that making the necessary updates to Agency policies has been a priority and is currently pursuing filling department staffing needs with the needed expertise to take the lead on these priorities. The report that follows provides a list of the 19 Agency policies that require update, the report also discusses the need communicate the most updated ethics and conflict of interest policy as well as ensure contact and reference information on the Agency's reporting hotline webpage is updated. IA will continue to evaluate progress.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* Y   *Amendment (Y/N):* N   *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 and the Report of Open Audit Recommendations. The follow-up review was planned under the Annual Audit Plan.

Environmental Determination:

Not Applicable

Business Goal:

The Follow-Up Review of Recommendations Related to Agency Policies and Ethics Point, Board Resolutions, and Administrative Handbook 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 - Follow-Up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolution, and Administrative Handbook
Attachment 2 - PowerPoint

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

DATE: June 1, 2023

TO: Shivaji Deshmukh
            General Manager

FROM: Teresa V. Velarde
            Manager of Internal Audit

SUBJECT: **Follow-Up Review of Recommendations Related to Agency Policies
            and EthicsPoint, Board Resolutions, and Administrative Handbook**

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) completed a follow-up evaluation of all prior audit recommendations related to the Agency's policies. Additionally, in the process of this review, IA evaluated the Agency's guidelines related to ethical conduct and conflict of interest and the reporting hotline reference information. This evaluation 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.

Audit Purpose & Objective

The purpose of this follow-up evaluation was to:

- Centralize, into this one report and under one department, the 12 outstanding audit recommendations related to the need to make updates to existing Agency policies (refer to **Table 1**).

- Provide recommendations related to the Agency's reporting hotline information webpage (EthicsPoint) including the need to make updates to the contact information and referenced policies on this information webpage.

- Provide recommendations related to communicating to employees the requirement to review and abide by Chapter 7 of the Agency's Administrative Handbook (dated 2018) which provides guidelines related to employee ethical conduct and conflict of interest.

Water Smart - Thinking in Terms of Tomorrow

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

Acknowledgements
IA appreciates the Human Resources Department for their cooperation and assistance during this review and looks forward to the continued collaboration.

Discussions with Management
Drafts of this report have been provided to Lisa Dye, Director of HR and Michael Dueñas, Project Manager of the Policy Review Project, for their review and input; where possible, their comments have been incorporated.

The Follow-up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook 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

Background

IA worked closely with the Human Resources Department (HR) to evaluate the 12 outstanding audit recommendations related to Agency policies, the information referenced in the Agency's reporting hotline webpage and the Administrative Handbook. HR stated that making the necessary updates to Agency policies has been a priority and is currently pursuing filling department staffing needs with the needed expertise to take the lead on these priorities. This report discusses the items that require attention.

Agency Policies

Since 2012 and earlier, IA has provided various recommendations related to the need for Agency policy updates. The recommendations were previously provided to other Agency departments. Through this evaluation, the recommendations are formally being transferred to HR to take the lead to make the needed updates. The reason for the transfer to HR is due to the sensitivity of how Agency Policies may affect personnel-related topics. Therefore, making the needed updates to Agency policies that establish terms and conditions of employment falls under the oversight of HR. Refer to **Table 1**.

EthicsPoint (Agency's reporting hotline)

Information for EthicsPoint is posted to both, the main IEUA webpage and the Agency's intranet (internal webpage). The information encourages that any wrongdoing be reported through the anonymous reporting site and references information related to Agency's policies and provides HR personnel contact information, both of which are currently outdated and require updates.

EthicsPoint is accessed through a link at the bottom of the IEUA webpage and intranet.

Administrative Handbook & Board Resolutions 2018-2-7 & 2005-2-9

Board Resolution No. 2005-2-9 was the Agency's Ethics Policy. This resolution was rescinded with Board-approved Resolution No. 2018-2-7 in February 2018. According to Resolution No. 2018-2-7, the Administrative Handbook incorporated the policies and procedures that were found in Resolution No. 2005-2-9.

IEUA's Resolution 2018-2-7 and the Administrative Handbook are not readily accessible on the Agency's website nor the intranet for employees to access.

Information documented in Chapter 7 of the Agency's Administrative Handbook (dated and approved by the Board in 2018) is intended to provide guidelines related to conflict of interest and apply to **all** Agency employees and the Board of Directors, but the information is not clearly communicated for employees to be aware of these policy requirements. Additionally, Chapter 7 of the Administrative Handbook is not a required Safety Tailgate Training topic that employees are responsible to review each year, as was Resolution No. 2005-2-9. Even though, Chapter 7 of the Handbook applies to all

Agency employees, it is not listed on the intranet as an Agency policy document nor easily accessible on the Agency's website.

The Agency's Administrative Handbook appears to apply primarily to the conduct of the Board members, with only Chapter 7 referencing that it applies to all employees. The Administrative Handbook is available on the Agency's website (https://www.ieua.org) as follows: *Agency's website > Menu (top right-hand corner) > About Us >Transparency (scroll to the bottom) > Resources > Click on IEUA Administrative Handbook. **(See Attachment 2).***

IA suggests that the requirements of Chapter 7 of the Agency's Administrative Handbook be clearly communicated and available to all Agency employees like other Agency policies are easily available and required they be reviewed periodically.

HR stated that they will recommend that the Administrative Handbook only include information that applies to the Board and not to employees. Information that applies to terms and conditions of staff employment, such as the conflict of interest information, will be included as a policy on the Agency's intranet (AIM).

Internal Audit Observations & Recommendations

Observations related to EthicsPoint:
Outdated information on the EthicsPoint (introduction) webpage, including:
- Agency's logo
- Agency's mission statement
- reference to a rescinded Agency resolution
- contact person is no longer an employee of the Agency
- links to outdated Agency policies and ordinances

See Attachment 1 – Screenshot of the link and EthicsPoint (introduction) webpage (as of May 18, 2023).

Observations related to the Agency's Administrative Handbook:
- The Administrative Handbook is not clearly communicated and is not easily accessible or visible on the Agency's websites for employees' reference
- The Administrative Handbook should be posted under employee policies to ensure it is communicated that the Handbook is a requirement for employees to follow
- Only Chapter 7 of the Handbook (*Conflict of Interest*) applies to both the Board members and Agency staff, while the other 6 chapters apply only to the Board
- Agency employees are not required to review Chapter 7 (*Conflict of Interest*) of the handbook as part of the Agency's Safety Tailgate Training Program

- Only section 7.3, Agency's Ethical Philosophy, the first sentence mentions employees, but all other sentences within this section only mention Board members or Board of Directors.

See Attachment 2 – Screenshot of the Table of Contents and Chapter 7 of the Administrative Handbook

IA provides two recommendations for consideration related to the Handbook and the EthicsPoint information and can be found at the end of the report, **2023 Recommendation #20 and #21.**

Observations related to Agency Policies

The Agency currently has approximately 79 different Agency Policies. As noted above, IA has provided, in past audits, 12 audit recommendations related to the need to update 19 of the Agency Policies to ensure these match existing Agency practices and the most current requirements. The recommendations (see **Table 1**) were previously provided to other Agency departments at the time of IAs review of those processes. IA understands that some Agency departments have already provided suggested updates and edits to most policies, but departments do not have the ability to make formal updates and needed changes to policies if changes impact terms and conditions of employment require meet and confer with the bargaining units . HR can help facilitate updates to Agency policies and the meet and confer process with the bargaining units.

IA is transferring the 12 recommendations related to 19 Agency policies from the various departments to HR in 19 new updated recommendations with details of the needed updates for each policy. IA is available to provide additional context and information related to the findings and updates needed for each. IA recommends HR take the lead to evaluate if changes are needed and pursue the necessary process to ensure Agency policies are updated and match current Agency practices. Current and updated policies are necessary and important because they provide guidelines for employees. Policies should be reviewed periodically to ensure they are consistent with current business practices and expectations.

The table that follows provides a list of the original 12 outstanding recommendations along with the original audit report name, the corresponding recommendation number, and the original department assignment. The following recommendations will be considered no longer applicable and are restated in **Table 2** which follows.

Audit Report	Rec #	(Table 1) Internal Audit Recommendation	Current Unit/ Department Assignment
Accounts Payable Follow-Up Audit August 29, 2013	4	AFM should work with the appropriate Agency personnel to update Agency policies and remind employees of the requirements of Agency Policy A-12, Employee Personal Computer Purchase Program; Policy A-37, Reimbursement for Attendance at a Conference, Seminar or Meeting; Policy A-50, Non-Purchase-Order Invoice Approval Procedures; Policy A-55, Agency Credit Cards; and Agency Policy A-14 Vehicle Use.	Accounting
Accounts Payable Follow-Up Audit August 29, 2013	5	Human Resources department, in conjunction with Information Support Systems, should ensure that loans for personal computers are not approved for items not covered by the loan program as described in Agency Policy A-12. Additionally, consider revising Agency Policy A-12 to clarify the applicability of the computer loan program to tablet computers and operating systems other than Microsoft Windows.	Accounting
2017 Petty Cash Audit & Follow-up Review June 5, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.	Accounting
2017 Petty Cash Audit & Follow-up Review June 5, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.	Accounting
2017 Petty Cash Audit & Follow-up Review June 5, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.	Accounting
Procurement Card Audit March 1, 2018	1	Agency Policy A-89, Procurement Card Program should be updated to reflect desired internal controls and provide clearer guidelines about the proper use of P-Cards. The policy should provide greater clarity about the purchases that are allowed or not allowed (i.e.: food, restaurant, meals, training registrations, membership payments, etc.). Additionally, the policy should provide instructions for users to follow when there are situations that are unusual and note the additional written justification that is necessary. Lastly, A-89, should direct users to seek CAP's guidance when there is a unique need, keeping the Agency's need in mind and ensuring adequate controls are maintained.	Contracts and Procurement
Procurement Card Audit March 1, 2018	2	The P-Card Administrator role should be clarified in Policy A-89 and expanded to include greater oversight responsibilities to ensure compliance. The role should include duties to fully utilize the various on-line tools available through US Bank for reports, alerts, training and other controls for reviewing and monitoring activity. Additionally, the P-Card Administrator should provide assistance and give advice on the best procurement method and periodically review statements and identify purchases and transactions that are not aligned with policy and request additional information.	Contracts and Procurement
Procurement Card Audit March 1, 2018	3	CAP should update Department-specific SOP CAP-0012 to incorporate any changes in Agency Policy A-89 Procurement card Program, including any updates to the P-Card Administrator's role and responsibilities. Additionally, CAP should ensure the SOP CAP-0012 complies with the guidelines and format set forth in Agency Policy A-51.	Contracts and Procurement
HR audit: Hiring and Promotions Operations Review December 2, 2019	4	Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.	Human Resources
HR audit: Hiring and Promotions Operations Review December 2, 2019	5	Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.	Human Resources

HR audit: Hiring and Promotions Operations Review December 2, 2019	6	Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.	Human Resources
HR Operational Audit: Administration of Employee Training and Development Programs August 31, 2020	5	HR should determine the need to either delete or update Agency Policy A-57.	Human Resources

The recommendations listed in **Table 1** require at least 19 Agency policies be updated.

2023 Recommendations related to Agency Policies:
IA recommends HR take the lead, work with the required departments to ensure the 19 Agency policies identified below are updated with the most current required Agency practice and format. IA recommends updates to the following 19 policies:

2023 Recommendation Number	Agency Policy #	Agency Policy Title	(Table 2) Recommendation and reason(s) for needed revisions
1	A-01	**Documentations of Policies and Procedures** *(Last policy update: 11/11/2013)*	HR should take the lead to make needed updates to Agency Policy A-01, ensure to address the following: • Evaluate to determine if this is the format the Agency will follow to document Policies and Procedures.
2	A-02	**Petty Cash** *(Last policy update: 12/18/2014)*	HR should take the lead to make needed updates to Agency Policy A-02, ensure to address the following: • Needs to address transactions greater than $50. • Link to the petty cash reimbursement form should be updated. • Clarify if purchasing gift cards are an allowable petty cash expense. • Link to the Resolution should be added. • Update the Job/Position titles to coincide with the organizational chart.
3	A-12	**Employee Personal Computer Purchase Program** *(Last policy update: 2/25/2015)*	HR should take the lead to make needed updates to Agency Policy A-12, ensure to address the following: • Ensure loans for personal computers are not approved for items not covered by the loan program. • Evaluate and clarify the types of computer equipment or devices that are allowed under the computer loan program to include tablets, computers, and operating systems other than Agency compatible hardware/software. • Evaluate and clarify if multiple computers and equipment, expensive headphones, TV monitors and cloud-based subscriptions can be purchased. • Training to Agency staff on all their respective policy requirements.
4	A-14	**Vehicle Use Policies and Procedures** *(Last policy update: 9/11/2008)*	HR should take the lead to make needed updates to Agency Policy A-14, ensure to address the following: • Address when milage claim reimbursements should be submitted to ensure these are timely. • Clarify the use of Agency and personal vehicles when driving for Agency-related business.

5	A-17	**Use and Insurance Requirements for Vehicles and Equipment rented by the Agency** *(Last policy update: 07/15/2005)*	HR should take the lead to make needed updates to Agency Policy A-17, ensure to address the following: - Policy updates resulting from updates to vehicle and related processes and procedures as previously discussed in the Vehicle Audits and from updates suggested by Agency departments. - If this policy will be eliminated, then ensure the information is included any policy(ies) related to vehicle operations and functions provide clear guidelines.
6	A-25	**Disposal of Surplus Agency Personal Property, Materials, and Equipment** *(Last policy update: 09/01/2006)*	HR should take the lead to make needed updates to Agency Policy A-25, ensure to address the following: - Policy updates resulting from updates to vehicle and related processes and procedures as previously discussed in the Vehicle Audits and from updates suggested by Agency departments. - If this policy will be eliminated, then ensure the information is included any policy(ies) related to vehicle operations and functions provide clear guidelines.
7	A-27	**Department of Motor Vehicle Records Verification and Confidentiality** *(Last policy update: 07/15/2005)*	- Policy updates resulting from updates to vehicle and related processes and procedures as previously discussed in the Vehicle Audits and from updates suggested by Agency departments. - If this policy will be eliminated, then ensure the information is included any policy(ies) related to vehicle operations and functions provide clear guidelines.
8	A-20	**Performance Appraisals** *(Last policy update: 05/16/2019)*	HR should take the lead to make needed updates to Agency Policy A-20, ensure to address the following: Employee performance appraisals were not being completed in a timely manner.
9	A-34	**Vehicle Maintenance** *(Last policy update: 07/15/2005)*	HR should take the lead to make needed updates to Agency Policy A-34, ensure to address the following: - Policy updates resulting from updates to vehicle and related processes and procedures as previously discussed in the Vehicle Audits and from updates suggested by Agency departments. - Update the language that states in extenuating circumstances a car wash for an Agency vehicle can be purchased and reimbursed through petty cash if this practice will be allowed. - Update the exhibits to the most current version.
10	A-37	**Reimbursement for Attendance at a Conference, Seminar or Meeting** *(Last policy update: 07/24/2015)*	HR should take the lead to make needed updates to Agency Policy A-37, ensure to address the following: - Needed updates related to reimbursements for attendance at training events. - Training to Agency staff on all their respective policy requirements. - Update the Job/Position titles to coincide with the current organizational chart.
11	A-49	**Closing Capital and Non-Capital Projects** *(Last policy update: 07/15/2005)*	HR should take the lead to make needed updates to Agency Policy A-49, ensure to address the following: Needs to be updated to ensure it matches current Agency practice for the capitalization of IT equipment.
12	A-50	**Non-Purchase Order Invoice Approval** *(Last policy update: 04/27/2015)*	HR should take the lead to make needed updates to Agency Policy A-50, ensure to address the following: - Training to Agency staff on all their respective policy requirements. - Needs to be updated to include the policy requirements for both PO and Non-PO items. - Update the Job/Position titles to coincide with the organizational chart.
13	A-51	**Standard Operating Procedures** *(Last policy update: 11/11/2013)*	HR should take the lead to make needed updates to Agency Policy A-51, ensure to address the following: Should be updated and all Departments need to be made aware and held accountable in maintaining and updating their SOPs.

14	A-55	**Agency Credit Cards** *(Last policy update: 05/25/2015)*	HR should take the lead to make needed updates to Agency Policy A-55, ensure to address the following: • Training to Agency staff on all their respective policy requirements
15	A-57	**Training Policy** *(Last policy update: 07/15/2005)*	HR should take the lead to make needed updates to Agency Policy A-57, ensure to address the following: • Update or delete the policy • Update the positions and departments according the most recent organizational updates • Update with the current and updated training forms • Eliminate reference to a training report that is no longer used and a practice that is non-existent. • Update with all other current training policy requirements
16	A-68	**Meal Reimbursement for Unscheduled Overtime** *(Last policy update: 04/10/2008)*	HR should take the lead to make needed updates to Agency Policy A-68, ensure to address the following: • Update the language that states the meal can be purchased as "authorized expenditure utilizing petty cash up to the authorized amount of $10"
17	A-75	**Employee Recognition Rewards Program** *(Last policy update: 11/01/2005)*	HR should take the lead to make needed updates to Agency Policy A-75, ensure to address the following: • Update language to state that items purchased for employee recognition rewards (such as gift cards) can be purchased using petty cash funds, appropriate type of award for this recognition, and maximum allowable amount
18	A-86	**Refueling Agency Vehicles** *(Last policy update: 02/04/2005)*	HR should take the lead to make needed updates to Agency Policy A-86, ensure to address the following: • Policy updates resulting from updates to vehicle and related processes and procedures as previously discussed in the Vehicle Audits and from updates suggested by Agency departments. • If this policy will be eliminated, then ensure the information is included any policy(ies) related to vehicle operations and functions provide clear guidelines • Provide procedures for fueling Agency pool and assigned vehicles • Update the policy language to match the current Agency practice
19	A-89	**Procurement Card Program** *(Last policy update: 01/26/2016)*	HR should take the lead to make needed updates to Agency Policy A-89, ensure to address the following: • Role of the P-card administrator should be enhanced/strengthened. • Evaluate and update to provide greater clarity and additional guidance about allowable and unallowable purchases • Adopt processes to improve P-Card transaction approvals and reconciliations • Additional internal control recommendations include safeguarding gift cards purchased with P-cards and updating SOPs

Source: Various Internal Audit Reports issued between 2012 and present.

Recommendations #20 and #**21** below relate to the webpage information and the Agency's Ethics Policies as described in the beginning of this audit report.

2023 Recommendation #20:
Human Resources should take the lead to make the necessary updates to the EthicsPoint webpage to ensure it is up-to-date and clearly communicates the Agency's message related to the ethics policy.

2023 Recommendation #21:

Determine if the Agency needs a documented Ethics Policy, or if the Administrative Handbook and Chapter 7 (of the Handbook) serves as the only required ethics policy document. If so, ensure this is clearly communicated to employees and consider the need to add this policy as a requirement for all employees to review annually as part of the Safety Tailgate Training Program.

<u>Auditee Response:</u>
In January 2021, HR hired Liebert Cassidy Whitmore (LCW) to perform a comprehensive Personnel Policy review, which included an evaluation of all Agency documents that govern the employment relationship. LCW provided their comments and recommendations to the existing Agency policies and documents in March 2022.

According to HR, the Agency does have many different types of policies, but not all of those policies govern the employment relationship with the Agency. Each individual policy falls into its own category and has a different priority level, and policies that are related to legal compliance and terms and conditions of employment have greater priority than those policies that are not compulsory. For example, policies related to Landscaping (A-13), Vehicle Use (A-14), Credit Cards (A-55, A-86, and A-89) and so forth, are related to day-to-day processes and procedures, whereas policies related to Equal Employment Opportunity (A-29), Harassment Prevention (A-30), Drug/Alcohol Free Workplace (A-63), Family and Medical Care Leave (A-64) and many others, are related to compliance and obligation by law. As of April 2023, the policies have been updated and are currently with the bargaining units for their review and comments.

<u>Conclusion</u>
IA refers readers to the current policies posted on the Agency's intranet for the complete information related to each current policy. IA continues to be available to provide assistance and additional audit services related to the policies. IA did not expand the scope of this review to evaluate additional areas or operations within the HR department. Additional reviews will be scheduled through the Board-approved Annual Audit Plan. Please contact any member of the Internal Audit Unit for additional information.
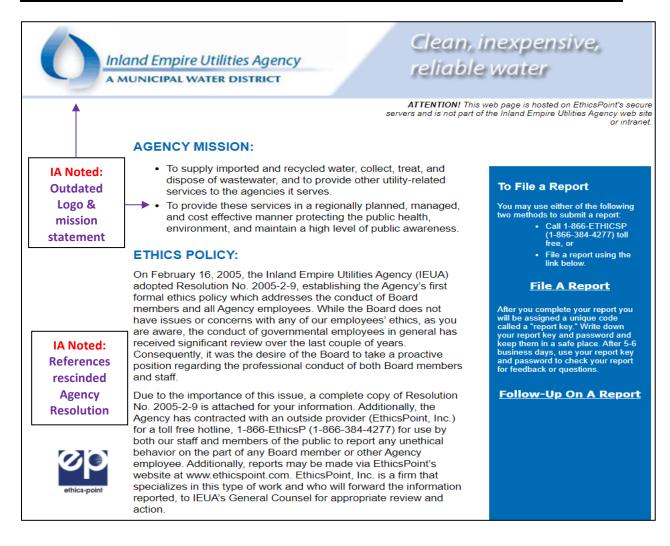
Attachment 1 – Screenshots

<u>Screenshot of link to EthicsPoint (reporting reference site):</u>
Path to access EthicsPoint: Agency's website (https://www.ieua.org) > Scroll down to the
bottom of the Page > Click on:

Water Smart - Thinking in Terms of Tomorrow

Contact Us | EthicsPoint | Sitemap | Privacy Policy | Website Accessibility | Customer Agency Portal
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<u>Screenshot of the EthicsPoint (introduction) webpage (reporting reference site)</u>:

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Clean, inexpensive, reliable water

ATTENTION! *This web page is hosted on EthicsPoint's secure
servers and is not part of the Inland Empire Utilities Agency web site
or intranet.*

**IA Noted:
Outdated
Logo &
mission
statement**

AGENCY MISSION:

- To supply imported and recycled water, collect, treat, and
  dispose of wastewater, and to provide other utility-related
  services to the agencies it serves.
- To provide these services in a regionally planned, managed,
  and cost effective manner protecting the public health,
  environment, and maintain a high level of public awareness.

ETHICS POLICY:

On February 16, 2005, the Inland Empire Utilities Agency (IEUA)
adopted Resolution No. 2005-2-9, establishing the Agency's first
formal ethics policy which addresses the conduct of Board
members and all Agency employees. While the Board does not
have issues or concerns with any of our employees' ethics, as you
are aware, the conduct of governmental employees in general has
received significant review over the last couple of years.
Consequently, it was the desire of the Board to take a proactive
position regarding the professional conduct of both Board members
and staff.

**IA Noted:
References
rescinded
Agency
Resolution**

Due to the importance of this issue, a complete copy of Resolution
No. 2005-2-9 is attached for your information. Additionally, the
Agency has contracted with an outside provider (EthicsPoint, Inc.)
for a toll free hotline, 1-866-EthicsP (1-866-384-4277) for use by
both our staff and members of the public to report any unethical
behavior on the part of any Board member or other Agency
employee. Additionally, reports may be made via EthicsPoint's
website at www.ethicspoint.com. EthicsPoint, Inc. is a firm that
specializes in this type of work and who will forward the information
reported, to IEUA's General Counsel for appropriate review and
action.

To File a Report

You may use either of the following
two methods to submit a report:
- Call 1-866-ETHICSP
  (1-866-384-4277) toll
  free, or
- File a report using the
  link below.

File A Report

After you complete your report you
will be assigned a unique code
called a "report key." Write down
your report key and password and
keep them in a safe place. After 5-6
business days, use your report key
and password to check your report
for feedback or questions.

Follow-Up On A Report

Screenshot of the EthicsPoint (introduction) webpage (reporting reference site): (Continued)

IA Noted:
References separated employee as point of contact

Should you have any questions, regarding the Agency's new Ethics Policy, please contact our Blanca Arambula, Deputy Manager of Human Resources at 909 993 1715

IEUA is dedicated to properly serving our customers, the public, and provide our employees a safe and productive workplace. The IEUA's Board of Directors, Audit Committee, and Management team value your input. That is why we have selected EthicsPoint to provide us with an anonymous and confidential method to hear your suggestions, concerns, or report of misconduct. The information you provide will be sent to us by EthicsPoint on a totally confidential and anonymous basis. You have our guarantee that your comments will be heard.

IEUA has the following reference material of policies and/or ordinances that Agency staff must adhere to:

IA Noted:
Links to older versions and outdated policies

1. Resolution of the Agency's Mission;
2. Gratuities and Gifts;
3. Equal Employment Opportunity;
4. Harassment Prohibition;
5. Personal Purchases;
6. Nepotism and Fraternization;
7. Drug/Alcohol Free Workplace;
8. Workplace Violence; and,
9. Procurement Policy.

Knowingly and willfully submitting false allegations against employees or officials of the Inland Empire Utilities Agency could result in civil and/or disciplinary (if an employee) action. Submissions to this website should be based on the highest standard of conduct and professional integrity.

ethics·point

Copyright © 2000-2023 EthicsPoint, Inc. All Rights Reserved.
Privacy Statement | Acceptable Use Policy | Cookie Statement | Contact EthicsPoint
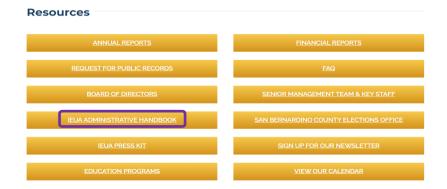
Attachment 2

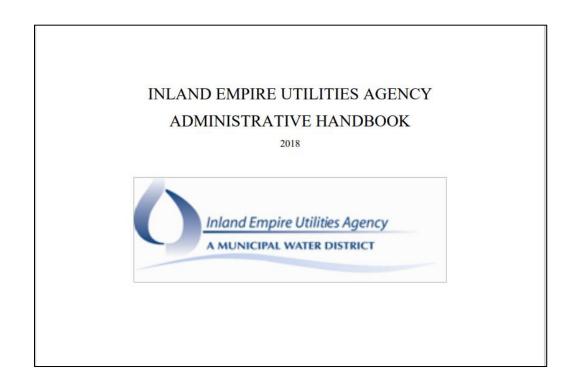**Screenshot of the links to the Administrative Handbook**:

Path to access IEUA Administrative Handbook: Agency's website (https://www.ieua.org) >
Click Menu [MENU] (located top-right hand corner) > Click About Us > Click Transparency >
Resources (Scroll down to the bottom) > Click on IEUA Administrative Handbook

The following 34-page document will populate:

Screenshot of the first page of the Administrative Handbook:

Attachment 2 (Continued):

Screenshot of the fourth page of the Table of Contents (Page 5 of 34 PDF):

Attachment 2 (Continued):

Screenshots that follow are of Chapter 7 from the Administrative Handbook:

CHAPTER 7: CONFLICT OF INTEREST (APPLICABLE TO ALL AGENCY DIRECTORS AND EMPLOYEES)

In order to assure their independence and impartiality on behalf of the public good, state law prohibits Board members from using their official positions to influence government decisions in

Page 24 of 29

which they have a financial interest or where they have an organizational responsibility or a personal relationship that would present a conflict of interest under applicable state law.

Conflict of interest rules apply to Agency employees as well. Employees cannot participate in the making of a contract if the employee or a family member has a financial interest in the contract. The making of a contract includes more than just voting for its approval. Under the law, the making of a contract includes discussions, negotiations, drafting and approval. Therefore, if an employee has been assigned to prepare a request for qualifications or request for proposal, or is in a position to recommend a purchase from a vendor, that employee has participated in the making of a contract. The objective of these conflict of interest provisions is to ensure the Board member or employee's dedication to the Agency is not impaired or potentially impaired by familial relationships, contractual relationships, or similar financial interests.

If a Board member becomes aware or suspects that he or she or a family member has a financial interest in a transaction involving the Agency, they should immediately disclose the fact to the Legal Counsel for evaluation and opinion on the potential conflict.

Whenever an employee becomes aware or suspects that he or she or a family member has a financial interest in a transaction involving the Agency, they should immediately disclose that fact to a supervisor. The matter will then be referred to Legal Counsel for evaluation and opinion on the potential conflict.

7.1 Board of Directors Conflict of Interest Adherence

1. A Board member or employee shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members.

2. A Board member or employee will not participate in the discussion, deliberation or vote on a matter before the Board of Directors, or in any way attempt to use his or her official position to influence a decision of the Board, if he or she has a prohibited interest with respect to the matter, as defined in the Political Reform Act, Government Code section 81000 et seq. relating to conflicts of interest. A Director has a financial interest if he/she has a material financial effect that is distinguishable from the effect on the public generally on:

   a. Any business entity in which the Board member or employee has a direct or indirect investment worth the amount specified in the then-effective Fair Political Practices Commission (FPPC) regulations;

   b. Real property in which the Board member or employee has a direct or indirect interest, with a worth in the amount specified in the then-effective FPPC regulations;

   c. A source of income of the Board member or employee in the amount specified in the then-effective FPPC regulations;

   d. A source of gifts to the Board member or employee in an amount specified in the then-effective Fair Political Practices Commission (FPPC) regulations within twelve months before the Board decision;

   e. A business entity in which the Board member holds a position as a director, trustee, officer, partner, manager or employee;

      f. The Board member or employee's personal expenses, income, assets or liabilities, and those of his or her immediate family, are likely to go up and down in a 12-month period as a result of the decision in the amount specified in the then-effective FPPC regulations.

  3. If a Board member believes that he or she may be disqualified from participation in the discussion, deliberations or vote on a particular matter due to a conflict of interest, the following procedures will be followed:

      a. If the Board member becomes aware of the potential conflict of interest before the Board meeting at which the matter will be discussed or acted on, the Board member will notify the Agency's General Manager and the Agency's Legal Counsel of the potential conflict of interest, so that a determination can be made whether it is a disqualifying conflict of interest;

      b. If it is determined that a disqualifying conflict of interest exists, the Board member shall state on the record during an open Board meeting, the nature of the conflict of interest and shall excuse himself/herself from the boardroom prior to Board discussion on the agenda item. The conflicted Board member shall abstain from voting and shall not participate in Board discussion or in any way attempt to influence the Board's consideration of the agenda item.

Board members shall refrain from voting on or otherwise influencing matters involving any person with whom the member is negotiating for, or has accepted, future employment, or where the member has a direct or indirect ownership interest or business relationship.

Board members are also prohibited from recommending the employment of a relative by the Agency.

No conflict exists if a Board member votes on a rate increase or tax level that effects all members of a class in the same manner as it will affect the Board member.

7.1.1 Compensation, Gifts and Gratuities

No Board member shall receive or agree to receive, directly or indirectly, any compensation, reward, honoraria or gift from any source except from his or her employer, for any action related to the conduct of the Agency's business.

7.1.2 Post-Employment Relationships

A former Board member, General Manager, Executive Manager, or department supervisor cannot represent, for compensation, any non-governmental entity before the Agency for a period of one year after leaving office or employment. This means to actively support or oppose a particular decision in a proceeding by lobbying in person to the executive managers or employees of the Agency, and to members of the Board of Directors. This does not apply to representation for a not-for-profit charitable entity or government entity before the Agency.

<u>7.1.3 Incompatible Offices</u>
Any Board member being considered for election to, or appointment at, another public entity, the
duties of which may require action contrary or inconsistent with the interest of the Agency, may

request an opinion from the Legal Counsel, Attorney General of the State of California, or the
California Fair Political Practices Commission, whichever may be applicable as to the
compatibility of the offices.

7.2 Ethics and Anti-Harassment Training

<u>7.2.1 Ethics Training</u>
AB 1234 requires elected or appointed officials who are compensated for their service or
reimbursed for their expenses to take two hours of training in ethics principles and laws every two
years. Those who enter office after January 1, 2006, must receive the training within a year starting
their service. They must then receive the training every two years after that.

The training must cover general ethics principles relating to public service and ethics laws,
including:

1. Laws relating to personal financial gain by public officials (including bribery and conflict
   of interest laws);
2. Laws relating to office-holder perks, including gifts and travel restrictions, personal and
   political use of public resources, and prohibitions against gifts of public funds;
3. Governmental transparency laws, including financial disclosure requirements, and open
   government laws (the Brown Act and Public Records Act);
4. Laws relating to fair processes, including fair contracting requirements, common law bias
   requirements, and due process.

<u>7.2.2 Sexual Harassment Prevention Training</u>
Existing law requires any civil or political subdivision of the state and all cities to provide at least
two hours of training regarding sexual harassment to all supervisory employees, as specified.

7.3 Agency Ethical Philosophy

It is Agency policy that Board members, executive managers, and employees maintain the highest
standard of personal honesty and fairness in carrying out their duties. The Board members must
uphold the United States Constitution, the California Constitution, and local and state laws. They
must comply with both the spirit and letter of the applicable laws regulating conduct, including
conflict of interest and financial disclosure requirements.

Board members should work in full cooperation with other public officials unless prohibited by
law or officially recognized confidentiality of their work. This includes those Board members
elected to the Board but who have not yet assumed office as a Board member.

The Board of Directors must perform its duties in accordance with rules established by the Agency, state law, federal law, and those rules and regulations established by state and federal agencies.
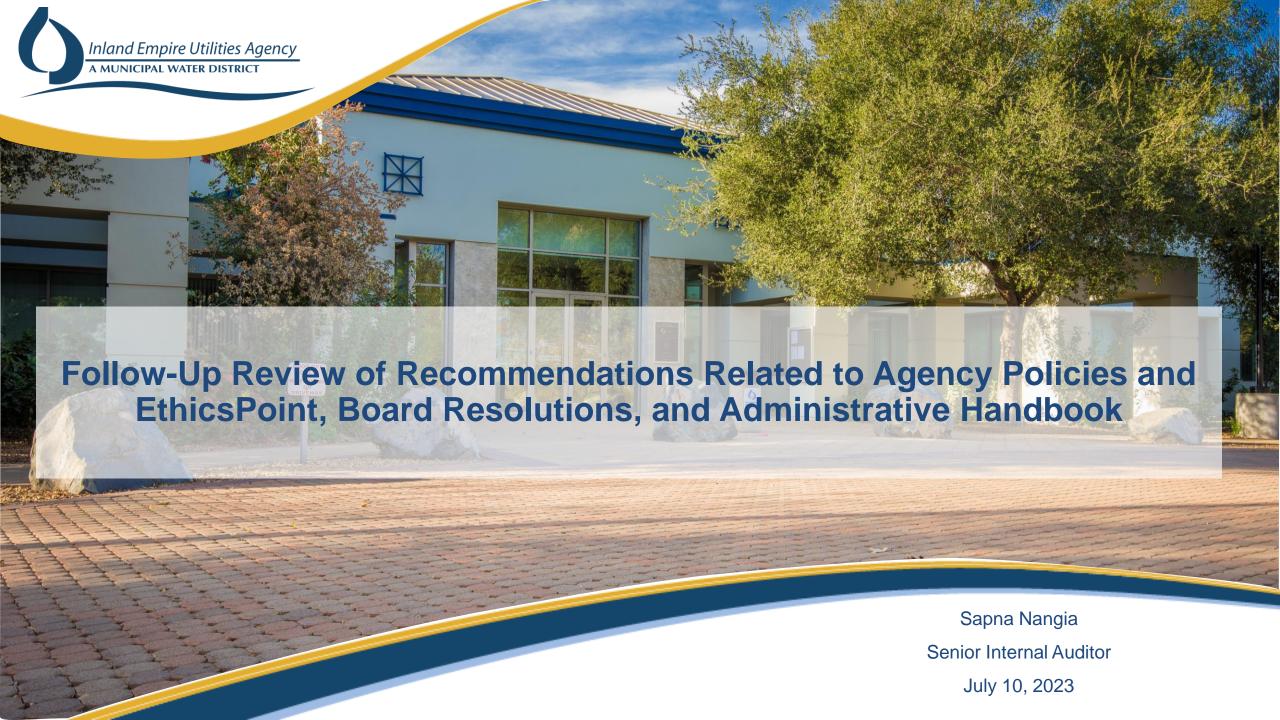
7.4 Equal Treatment

Board members shall also refrain from abusive conduct, personal attacks upon the character or morals of other Board members, Executive Managers, Agency, employees, or members of the public. Furthermore, no Board member, Executive Manager, or Agency employee shall directly or

indirectly use or attempt to use the authority or influence of his or her position for the purpose with the intent of interfering with   that person's duty to disclose improper activity.

Board members are prohibited from offering inducements to potential vendors, contractors, consultant, or other parties, to the exclusion of similar persons or firms, in hopes of obtaining reciprocal favors.

Board members shall not, in the performance of their official functions, discriminate against any person on the basis of race, religion, color, creed, age, marital status, national origin, ancestry, sex, sexual preference, medical condition, or disability.

Follow-Up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook

Sapna Nangia

Senior Internal Auditor

July 10, 2023

Audit Purpose & Objective

- Open recommendations related to Agency policies that require updates

- EthicsPoint

- Agency's Administrative Handbook

Observations & Recommendations related to Agency Policies

- 79 Agency Policies

- 12 prior audit recommendations
  - related to needed updates to Agency policies
  - Some dated as far back as 2012 and earlier

- 19 of the Agency Policies require updates
  - to ensure expectations and guidelines match current Agency practices
  - based on prior audit findings

List of Agency Policies that require updates

Rec #	Agency Policy	Agency Policy Title	Last Policy Update
1	A-01	Documentations of Policies and Procedures	11/11/2013
2	A-02	Petty Cash	12/18/2014
3	A-12	Employee Personal Computer Purchase Program	2/25/2015
4	A-14	Vehicle Use Policies and Procedures	9/11/2008
5	A-17	Use and Insurance Requirements for Vehicles and Equipment rented by the Agency	7/15/2005
6	A-25	Disposal of Surplus Agency Personal Property, Materials, and Equipment	9/1/2006
7	A-27	Department of Motor Vehicle Records Verification and Confidentiality	7/15/2005
8	A-20	Performance Appraisals	5/16/2019
9	A-34	Vehicle Maintenance	7/15/2005
10	A-37	Reimbursement for Attendance at a Conference, Seminar or Meeting	7/24/2015
11	A-49	Closing Capital and Non-Capital Projects	7/15/2005
12	A-50	Non-Purchase Order Invoice Approval	4/27/2015
13	A-51	Standard Operating Procedures	11/11/2013
14	A-55	Agency Credit Cards	5/25/2015
15	A-57	Training Policy	7/15/2005
16	A-68	Meal Reimbursement for Unscheduled Overtime	4/10/2008
17	A-75	Employee Recognition Rewards Program	11/1/2005
18	A-86	Refueling Agency Vehicles	2/4/2005
19	A-89	Procurement Card Program	1/26/2016

List of Agency Policies that require updates

Rec #	Agency Policy	Agency Policy Title	Last Policy Update
1	A-01	Documentations of Policies and Procedures	11/11/2013
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17	A-75	Employee Recognition Rewards Program	11/1/2005
18	A-86	Refueling Agency Vehicles	2/4/2005
19	A-89	Procurement Card Program	1/26/2016

Agency Policies related to Vehicles

Suggested revisions:

- Clarify the use of vehicles for Agency-related business; address timeliness of mileage claim reimbursements

- Clarify the automobile insurance requirements

- Identify the situations when car washes are allowed via petty cash

- Provide procedures for re-fueling Agency vehicles

List of Agency Policies that require updates

Rec #	Agency Policy	Agency Policy Title	Last Policy Update
1	A-01	Documentations of Policies and Procedures	11/11/2013
2	A-02	Petty Cash	12/18/2014
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18	A-86	Refueling Agency Vehicles	2/4/2005
19	A-89	Procurement Card Program	1/26/2016

7

Agency Policy A-57: Training Policy

Suggested revisions:

- Update the positions and departments per the most recent organizational structure

- Update and refer to the most current training forms

- Refers currently to a business practice that is no longer used

HR's Response

- Updates to Agency Policies are a priority

- In 2021, engaged a consultant to perform a comprehensive review

- In 2022, consultant provided their recommendations

- Currently, bargaining units are reviewing the proposed updates

Observations & Recommendations related to EthicsPoint

EthicsPoint introduction page has outdated information including:

- Agency's logo
- Agency's mission statement
- Reference to a rescinded Agency resolution
- Contact person is no longer an employee of the Agency
- Links reference outdated Agency policies and ordinances

Observations & Recommendations related to the Administrative Handbook

- Not easily accessible or visible for employees' reference

- Not posted under employee policies

- Only Chapter 7, *Conflict of Interest,* applies to Board members and employees, while the other 6 chapters **only** apply to the Board members

- Employees are **<u>not</u>** required to review Chapter 7 as a part of the Agency's Safety Tailgate Training Program

The Follow-Up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong internal control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

Questions?

INFORMATION
ITEM
2D

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

Date: July 19, 2023

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

Committee: Audit   *07/10/23*

Manager Contact: Teresa Velarde, Manager of Internal Audit

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

---

Executive Summary:

Internal Audit (IA) completed a follow up review of the audit recommendations provided through the various Procure to Pay (P2P) audits under the comprehensive Accounts Payable Operational and Internal Control audit. The scope of these audits was to evaluate the payment processes for the Agency's goods and services and to determine if internal controls and processes are efficient to ensure vendor invoices are paid timely. This is the sixth progress update. IA reports that several processes have been updated and improved and new initiatives have been explored and implemented to ensure vendors are paid on time. The Agency is now current on all payments.

To-date, IA has provided 120 recommendations through seven comprehensive P2P audits. Of the 120 audit recommendations provided, 58 are now considered implemented, 24 are in progress of being implemented and 38 are considered no longer applicable because alternate controls have been implemented to address the observations identified. The attached report provides details of the results and responses provided by the departments as well as highlights of the items that have been achieved. IA will continue to provide quarterly progress updates on the outstanding recommendations, including new recommendations through additional P2P audits.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

 N/A

Fiscal Impact (explain if not budgeted):

 N/A

Prior Board Action:

On June 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 Annual Audit Plan. The Plan proposed the various Procure to Pay Audits under the Accounts Payable Operational and Internal Control Audit.

Environmental Determination:

Not Applicable

Business Goal:

The Progress Update for all Procure to Pay Audit Recommendations - Sixth 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 - Sixth Update
Attachment 2 - Progress Update List of all outstanding P2P audits
Attachment 3 - PowerPoint

DATE: June 1, 2023

TO: Shivaji Deshmukh
             General Manager

FROM: Teresa V. Velarde
             Manager of Internal Audit

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

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) is providing a progress update of the one-hundred and twenty (120) audit recommendations provided in the previous seven (7) Procure to Pay (P2P) audits completed under the comprehensive Accounts Payable Operational and Internal Controls Audit. 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 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.

Water Smart - Thinking in Terms of Tomorrow

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

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

Interim Audit Report: Accounts Payable Operational and Internal Control Audit	
Date Issued	**Recommendations**
August 20, 2021	Interim Audit Report
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 (no longer applicable)
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.	
Review of Procure to Pay Processes for Materials and Supplies	
Date Issued	**Recommendations**
December 2, 2022	19
Review of Pay Estimate Processes	
Date Issued	**Recommendations**
February 27, 2023	27

The dashboard that follows provides a breakdown of the audit recommendations provided to each department and unit through the P2P audits with the status for each. The attached report, provides a detailed list of each outstanding recommendation, noting the departments' current responses, planned date for implementation and IA comments and the final disposition for each recommendation. The list attached provides a list of items that were still outstanding as of May 30, 2023. 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 Update Reports 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.

Unit	Status				Total Original Audit Recommendations
	Implemented	In Progress	Not Implemented	No Longer Applicable	
Operations – Materials & Supplies	-	2	0	-	2
Maintenance – Materials & Supplies	-	2	0	-	2
Warehouse – Materials & Supplies	1	0	0	1	2
Water Quality Laboratory – Materials & Supplies	1	2	0	1	4
Facilities and Water System Programs – Materials & Supplies	-	2	0	-	2
Procurement Card Program	2	1	0	-	3
Contracts and Procurement	7	3	0	1	11
Accounting	19	4	0	19	42
Engineering	6	8	0	2	16
Operations – Chemicals	12	0	0	4	16
Engineering & Construction Management	6	0	0	1	7
Planning	4	0	0	2	6
Home Depot Credit Cards	0	0	0	7	7
Total Recommendations	58	24	0	38	120
Percentages	48%	20%	0	32%	100%

Of the 120 audit recommendations:
- *58 are now implemented*
- *38 are considered no longer applicable because alternate controls were implemented. These recommendations are considered closed.*
- *24 are in progress of being implemented*

Of the 24 recommendations in progress:

- 1 recommendation is in progress of being implemented by the Procurement Card Administrator. The recommendation relates to finalizing and implementing an Agency PCard policy that provides clear guidelines for the use of the Procurement Card. This recommendation will be evaluated during the PCard audit that will begin after the approval of the new Annual Audit Plan.

- 3 recommendations are in progress of being implemented by Contracts and Procurement (CAP). One recommendation relates to making updates to Agency Policy A-50 related to non-POs and approval authorities. The remaining two recommendations relate to working closely with IT to make processes more

efficient in SAP, the Agency's ERP system. CAP continues to meet with Information Technology (IT) to discuss the needed updates.

- 8 recommendations are in progress of being implemented by the following departments or units: Operations, Maintenance, the Warehouse, the Water Quality Laboratory and Facilities & Water Systems Programs. The recommendations relate to tightening controls related to the receiving function. These recommendations will be considered in progress until all staff is fully trained on Esker and departments evaluate process changes because processes will require updates because of the implementation. IA will follow up on these processes during the next quarterly progress update.

- 4 recommendations are in progress of being implemented by Finance. These relate to documenting SOP's and providing training and establishing KPIs.

- 8 recommendations are in progress of being implemented by the Engineering department related the improving Pay Estimate processes to streamline their internal processes.

Highlights

IA participates in various meetings with all Agency departments related to the implementation of the audit recommendations and the many Agency initiatives related to the P2P audit recommendations.

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

- Esker Implementation: With the implementation of Esker, Accounting has been able to implement and address several recommendations that were previously In Progress. Esker provides visibility of pending invoices and staff can take follow-up action immediately. Esker also provides several dashboards and reports to quantify activities and keep track of the processes. Accounting continues to work with departments to improve the invoice approval processes and the timeliness of payments.

- IT Reports: IT continues to work closely with all departments to evaluate software, report capabilities and other needs related to technology and improvements with priority being on ensuring bills are paid 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. IA will evaluate the program as approved under the Annual Audit Plan.

- <u>CAP Café & on-going communications:</u> CAP continues to reach out to the departments to work closely with them to gain a clear understanding of their unique procurement requirements and to provide additional training, guidance, and assistance to ensure the transactions follow the Agency's P2P process. CAP 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.

- <u>Standard Operating Procedures:</u> various departments continue to document and formalize their processes and procedures to serve as guidelines for the many processes.

The next progress update will report on the 24 remaining recommendations. Additional progress updates will be submitted until all recommendations are addressed.

The attached matrix provides a status for each of the 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 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 – Sixth 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.

P2P	Rec #	Unit(s) Taking the Lead	Recommendation	Status				Department's Response, Corrective Action Plan and Proposed Date for Implementation	IA Notes
				Implemented	In Progress	Not Implemented	No Longer Applicable		
M&S	8	Ops M&S	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.		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.
M&S	9	Ops M&S	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.		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.
M&S	10	Mnt	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		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.

			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.						
M&S	11	Mnt	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.		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.
M&S	12	WHS	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.				X	Warehouse continues to utilize the Open PR and Open PO Report (for Warehouse dept. 156) on a weekly basis to ensure all receiving is completed within the 5-7 day timeline. The only 2 KPI's warehouse currently monitors are inventory accuracy and inventory dollars on hand/month. As mentioned, the indirect KPI's to ensure timely receiving (for which we have 100% control over) is the weekly review of the Open PR/PO Reports for which I personally review or work with admin and staff to complete. 4/11/23: Warehouse review/receiving process remains the same as above, with the exception of utilizing Esker to communicate/resolve any outstanding receiving/invoicing discrepancies. Mary Escobar reviews Esker daily to review/resolve outstanding issues. Warehouse receiving is still completed within 5-7 days of receipt and the open PR/PO report is worked on a weekly basis.	1/26/2023: The Warehouse's internal goal of completing receiving within 5-7 days appears to be timely and appropriate to allow Accounting sufficient time to process payments. IA will consider this recommendation In Progress, pending process changes resulting from the implementation of Esker for new invoice intake and routing and measurement and visibility of the receiving function. IA will follow up after Esker has been implemented to re-evaluate the goal of completing all receiving within 5-7 days. 5/2023 Based on changes made as of the implementation of Esker this recommendation is considered No Longer Applicable and Closed. The warehouse will monitor responsiveness with the use of Esker and complete receiving within 5-7 days. Thre is no need for documented procedures and KPIs when relying on information from Esker.
M&S	13	WHS	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	X				Administrative Assistant is in constant communications (email, phone, meetings) with Accounting, Admins. and O&M/Planners on a weekly basis to resolve any outstanding receiving issues causing delay of receiving in SAP. The importance of having each department generate and work their PR/PO Reports weekly has been made, however, it is outside the control of Warehouse to ensure that it is completed; this initiative needs to be driven from within each dpt mgt team. 4/11/23: No changes since implementation of Esker other then utilizing this platform for ongoing communications, which has allowed more direct communications to the appropriate parties. 4/17/23: Email communication will be forwarded to all (No Board) the 1st week of July informing them as to	1/26/2023. The Warehouse's approach to ensure continuous communications with Accounting, Admins, Planners and other units/groups appears to be appropriate and great customer service. IA will consider this recommendation In Progress, pending process changes resulting from the implementation of Esker for new invoice intake and routing and measurement and visibility of the receiving function. IA will follow up after Esker has been implemented to re-evaluate the goal of completing all receiving within 5-7 days. 5/2023 The response appears appropriate. The recommendation will remain In Progress, pending a copy receipt of the communication sent out. Please copy and share with Internal

	3		report as tool to guide the discussion about the items needing receiving.					what Warehouse is responsible for receiving in SAP vs. Dept responsibility. Reminder communication will be sent out quarterly thereafter through the balance of the FY, shifting to bi-annual for future FYs. 5/25/23: An email communication was sent to ALL (no board) informing everyone of the receiving protocol at warehouse. Follow-up communication will be send September 2023, then bi-annually beginning January 2024.	Audit for our records. We will follow up in 2-3 months. 5/25/2023 Based on the message sent today, IA will consider this recommendation implemented and closed.
M&S	6	Facilities	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 established for chemical receiving is done within 5-7 days).		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.
M&S	7	Facilities	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.		X				IA will follow up after the implementation of Esker and once all staff is trained and familiar with the new invoice recognition system and processes have been updated.
M&S	1	PCard Admin	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.		X			On 2/7/2023 Pcard Administrator responded: The PCard Admin continues to review all charges during the statement period. PCard Admin sends reminder emails to all users each month about items requiring attention. Depending on the items requiring attention there are individual emails that are sent to different users pertaining to their issues. PCard Admin reviews all charges to ensure that it aligns with the Procurement Ordinance 110. This is done through perusing the card portal and spot checking. IT provides an additional level of review prior to posting for any missing required documentation or support.	2/7/2023. Thank you for your response. This recommendation is specific to your current process which you have addressed and also related to reinforcing the current guidelines and policies, IA has the following follow up questions: Do you have any SOPs for the processes the Pcard Admin performs? If so please provide copies. Do you share the related Agency policies with users? If so which ones? Do you see the need for any updates to the Agency policies? If so, what are they? Have you noticed anything that requires attention? Is there anything IA can assist with?
M&S	4	CAP	CAP should consider working with IT to set up an automated purchase order processing system. The new system		X			On 2/7/2023P CAP stated they have had several meetings with IT in support of having the automation of the PR to PO established. IT	

			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.					continues to research and evaluate the process requirements to support this automation. We have not received a status update from IT as to the potential implementation timeline.	
M&S	5	CAP	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.*		X			On 2/7/2023, CAP stated they have been working closely with IT to identify the work order number associated with PO's. There are some challenges in pulling the requestor contact information. While IT continues to explore the functionality, CAP is evaluating the manual process of entering the contact information for the requestor in the body of the PO. This will allow for the full name, email and phone number to be included and visible in the PO.	
P&R	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.
PEs	12	E&CM	Engineering Management should take the lead to evaluate the accuracy and reliability of using CIPO to ensure the system is the most effective tool to gather Pay Estimate information. Or work closely with IT to		X			Engineering Leadership has evaluated the accuracy and reliability of using CIPO based on the tickets over the last FY to ensure the system is the most effective tool to gather pay estimate information. The tickets did not have anything to do with accuracy, they were either	5/20/2023 Thank you for your response. IA will follow up with Engineering in July/August and/or October/November if needed to determine if there have been any CIPO

			evaluate if there are modules or functions in SAP, the Agency's ERP system, to upload Pay Estimate information.				user issues or system update issues. These two areas have been addressed with quality control program CIPO has implemented and training the Engineering Unit has scheduled for the next unit-wide meeting at the end of April. Response provided on 5/1/2023	support tickets were submitted and the type. At this time the recommendation will be considered In Progress.
PEs	13	E&CM	Engineering Management should work with CIPO to develop an ongoing process to test and verify the reliability of patches and updates to ensure CIPO has accurate formulas and calculations before relying on the data and submitting to AP for processing.		X			CIPO implemented a program in November 2022 which performs automated testing when changes and new features are introduced into the CIPO. This program automatically runs tests on application scenarios to avoid regressions (bugs in already implemented stuff). The tests are enhanced as new features are introduced into the application to check all modules when new enhancements/upgrades are implemented. Response provided on 5/1/2023	5/20/2023 Thank you for your response. Like above, IA will follow up in the following quarters. At this time, the recommendation will be considered In Progress.
PEs	14	E&CM	Engineering Management must implement additional internal controls to ensure there is adequate review, verification, and approval of the Pay Estimate information from the Project Managers and other reviewers and approvers prior to submitting to AP for payment, to ensure its accuracy and prevent delays in payment process.		X			Engineering completed overview training on April 26, 2023, for pay estimate review and processing in the unit-wide meeting. See attached PowerPoint. Response provided on 5/1/2023	5/20/2023 Thank you for your response. The recommendations specifically recommends that Engineering Management implement additional internal controls to ensure there is adequate review, verification, and approval for the Pay Estimate information by Project Managers. Your respond indicates that training was provided related to what PMs should be reviewing for. As a follow up questions, how often will this training be provided? **Do you believe this needs to be reinforced? IA recommends this be reemphasized annually.** This recommendation will be considered In Progress, please let us know how often the training will be provided.
PEs	15	E&CM	Engineering Management must implement additional internal controls and provide staff training to ensure the Receiving function in SAP is performed correctly. Additionally, there should be a process to review the receiving information entered by staff prior to information sent to AP, to ensure its accuracy and prevent delays in payment process.		X			Engineering completed overview training on April 26, 2023, for pay estimate review and processing in the unit-wide meeting. See attached PowerPoint. Response provided on 5/1/2023.	**5/20/2023 similar to comment above, Do you believe this training needs to be reinforced? IA recommends this be reemphasized annually.** his recommendation will be considered In Progress, please let us know how often the training will be provided.
PEs	16	E&CM	Engineering Management should take the lead to reevaluate the processes for Pay		X			Engineering will be moving from using the G/EN drive into using Teams for all active project documentation starting in July 2023.	**5/20/2023** Thank you for your response. This recommendation will be considered In Progress, IA will

			Estimates and determine the need to have the Pay Estimate documentation saved/uploaded in multiple locations (both inside and outside of SAP). If needed, work with IT and Records Management to determine the most efficient method for linking and/or interfacing the documentation and eliminate the need for multiple copies					Once this is complete, the pay estimates will be housed in CIPO and in the project folder located on Teams. Once Engineering transitions to Teams, the CM drive folder which houses all the pay estimates will be eliminated. Response provided on 5/1/2023	review the use and implementation of the new folders in TEAMS. We will schedule a follow up meeting in July/August.
PEs	17	E&CM	Engineering should take the lead to work with IT and possibly Finance, to determine if there are ways to eliminate the reliance on excel spreadsheets with centralized reports from SAP or leveraging AP's spreadsheets. Reports should assist with the review, tracking, reconciliation and monitoring of Pay Estimate payment information. The reports should include the needed information that both departments rely on. SAP report tools should be available and visible to all staff that need the information.		X			Engineering reached out to IT and showed them the one spreadsheet that is updated each month with all the Pay Estimate, Change Order, GR/IR information, and total amount being paid for the month. All of these items are needed by Finance and AP to process payments. Currently, SAP doesn't have a report to provide these details. IT did state however, that one of the things they are working on is building a database that extracts SAP information and giving users a new Microsoft tool called Power BI which lets staff build dashboards and spreadsheets from the data. This is currently a few months out of being implemented. Response provided on 5/1/2023	**5/20/2023** Thank you for your response. This recommendation will be considered In Progress, IA will follow up with you in July/August to determine if a more efficient process has been implemented.
PEs	18	E&CM	Engineering and AP should discuss and work together to determine if Accounting requires more time to process Pay Estimates. If AP requires more time, then Engineering should reevaluate its internal processes and determine if they can provide more time to AP to process Pay Estimates. Additionally, Engineering should work with Finance staff to determine if the 20th of the month is the most effective date to process and Pay Estimate or if changes and efficiencies can be achieved by reevaluating internal processes to ensure all information is provided timely to AP.	X				This is similar to action item 24. Engineering reached out to AP and verified that one week before the week of the 20th to be paid out on the Thursday of that week is enough time to process the pay estimates each month. If this timing becomes an issue in the future, AP will work with Engineering on new deadline requirements. Response provided on 5/1/2023	5/20/2023 Thank you for your response. IA has reviewed and determines that departments have the appropriate time needed. This recommendation is considered fully implemented and closed.
PEs	19	E&CM	Engineering Management should take the lead to evaluate internal controls for requiring multiple signatures on Pay Estimates. Engineering should follow their				X	This action item is similar to number 20 of the audit recommendations. The signature approvals on the pay estimate are currently based off Policy A-50. AP stated they will look into this policy to see if it requires	Thank you for your response. Per your response, the department has evaluated the cost-benefit of requiring the 3-7 reviewers and signatures on each Pay Estimate and keep this

			own SOP requirements and Agency Policy A-50 regarding approval authority and ensure only required signatures are obtained per the dollar threshold required. Evaluate the costs and benefits of requiring 3-7 reviewers and signatures on each Pay Estimate and note that A-50 does not have a requirement for the Agency's GM to approve Pay Estimates.					updating with the new positions of the Agency and approval thresholds updated if needed. Currently, these approval levels are required based off of knowledge of work being performed up through the level of approval required for authorization of payment. For example, AP scheduled a meeting with EMWD. During this meeting, it was discussed their approval levels for pay estimates invoices, which is currently set as the manager level being the highest level required to process their pay estimates and invoices. Response provided on 5/1/2023	process as is; therefore, it is the departments preference to keep the layers of review/approval. At this time, this process does not cause delays, therefore, IA will consider this recommendation No Longer Applicable and closed.
PEs	20	E&CM	Engineering Management should take the lead to work with HR to update Agency Policy A-50 to ensure the required authority, reviews and approvals for Pay Estimates are documented in the policy. Ensure the Agency's practice meets the policy requirements to ensure internal controls are implemented and work as intended. The Policy requires updates to positions and threshold levels and dollar amounts.				X	This action item is similar to number 19 of the audit recommendations. The signature approvals on the pay estimate are currently based off of Policy A-50. AP stated they will look into this policy to see if it requires updating with the new positions of the Agency and approval thresholds updated if needed. Currently, these approval levels are required based off of knowledge of work being performed up through the level of approval required for authorization of payment. For example, AP scheduled a meeting with EMWD. During this meeting, it was discussed their approval levels for pay estimates invoices, which is currently set as the manager level being the highest level required to process their pay estimates and invoices. Response provided on 5/1/2023	5/20/2023 Thank you for your response. IA will consider this No Longer Applicable and closed. IA will follow up with HR and Accounting on their process to update A-50.
PEs	21	E&CM	Engineering Management must implement additional internal controls and provide staff training to ensure the receiving function is completed timely and accurately. Once additional recommendations and internal controls related to ensuring the accuracy of the information of Pay Estimates have been implemented, Engineering Management might want to evaluate implementing efficiencies and establishing the purpose for the receiving function in SAP. Because Pay Estimates and documentation are approved on multiple systems and by multiple approval levels, the receiving	X				Engineering completed overview training in April 26, 2023, for pay estimate review and processing in the unit-wide meeting. See attached PowerPoint. Response provided on 5/1/2023	5/20/2023 Thank you for your response. IA will consider this Implemented and closed because training was provided. The current process for receiving is not slowing down the process per accounting's comments. Follow up question, will this training be provided periodically and how often?

			function may or may not be necessary to certify the payment is ready to be processed. At this time, the receiving function should be completed as soon as possible after the PM has approved to not delay the payment process.	X					
PEs	22	E&CM	Engineering Management should take the lead to work with Finance to evaluate ways to improve the Pay Estimate form to ensure it serves as an effective communication tool for both departments about the payment information. AP relies on the information on the Pay Estimate to process accounting transactions, ensuring the information is available, reliable, visible, and complete will improve efficiencies in processing payments, retentions, escrows, etc.	X				Engineering has followed up with the AP Team. They like the pay estimate format that Engineering uses and does not want to make any major changes. They had one request, which is to add a field for the vendor number to the pay estimate and the compiled excel file with the GR/IR information. They stated all other areas work for them currently. The vendor number has been added to both the pay estimate and the excel log. If there are any additional fields, AP will work with Engineering on adding new items. Engineering is also looking internally to see if there are any areas to update on the pay estimate cover page that may be repetitive to streamline and add efficiency when reviewing. If any changes come from this internal review, the change requests will be submitted to CIPO and reviewed with AP. Response provided on 5/1/2023	5/20/2023 Thank you for your response. IA will consider this Implemented and closed because both Engineering and Accounting are satisfied with the current format of the form and no needed updates are necessary. As a follow up, please forward the updated form with any new changes made.
PEs	23	E&CM	Engineering should coordinate with the contractors to ensure the Schedule of Values are completed and uploaded into CIPO no later than the 20th of each month.	X				The Schedule of Values is uploaded by the contractor at the beginning of the construction phase, after contract award. This is a one-time function, which then builds the monthly pay estimate. Response provided on 5/1/2023	5/20/2023 Thank you for your response. IA will consider this Implemented and closed because the recommendation intended to encourage the contractors upload the information for the Pay Estimate each month by the 20th. Based on our discussions with Engineering and Accounting, the current timing of the contractors seems to work effectively and does not delay the processing of payments. IA will continue to monitor.
PEs	24	E&CM	Engineering Management should take the lead to work with AP to tighten internal controls to ensure payments are made according to PCC rules, Net 30. See all recommendations provided in this report to improve processes and implement efficiencies to ensure the payments for the Pay Estimates are processed, reviewed,		X			This is similar to action item 18. Engineering reached out to AP and verified that one week before the week of the 20th to be paid out on the Thursday of that week is enough time to process the pay estimates each month. If this timing becomes an issue in the future, AP will work with Engineering on new deadline requirements. Response provided on 5/1/2023	This recommendation intends to address the potential of late payments and issuing late payments to vendors. Has this happened and what are the controls in place? IA will also follow up during next quarter

			approved and received in SAP in a timely manner and provide AP sufficient time to reconcile and process payments, to ensure the Agency does not incur an interest and/or have to pay a contractor interest.						
PEs	25	E&CM	Engineering should review their SOP and include processes (step-by-step procedures) related to Stop Notices.	X				The stop notice procedures for the Engineering Unit has been incorporated in the Invoice/Pay Estimate ENGCM-07 SOP. See attached section 3.4, page 7-9. Response provided on 5/1/2023	5/20/2023 Implemented. SOP attached.
PEs	26	E&CM	Engineering should document guidelines about processing the receiving for Pay Estimates, specifically providing guidelines and information about the dollar amounts to be received (gross vs. net) and the retention/escrow withheld.	X				The stop notices procedures for the Engineering Unit has been incorporated in the Invoice/Pay Estimate ENGCM-07 SOP. See attached section 3.3.F, page 6. Engineering completed overview training on April 26, 2023, for pay estimate review and processing in the unit-wide meeting. Response provided on 5/1/2023	5/20/2023 Implemented. SOP attached.
PEs	27	E&CM	Engineering should provide on-going training to all staff on the various Pay Estimate requirements and responsibilities; including carefully reviewing and comparing information from the schedule of values to the Pay Estimate, and ensure the receiving is done correctly to ensure the processes are working as intended and minimize delays to the payment processes and minimize AP's review, reconciliation and involvement in verifying data.		X			Engineering completed overview training on April 26, 2023, for pay estimate review and processing in the unit-wide meeting. Response provided on 5/1/2023	5/20/2023 Thank you for your response. The recommendation suggests "on-going training". Does the department have plans for on going training and if so what is the plan? IA will consider recommendation In Progress and follow up next quarter.
M&S	14	Lab	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 into SAP, for both goods and services. (Similar to the new procedures established to ensure receiving for chemicals is completed within 5-7 days).				X	Once invoices are received through Esker, invoices will be processed within 5-7 days of receipt. When out of office, a back up will be assigned.	On 5/3/2023 Lab staff indicated that the goal for Lab items for receiving into SAP and the approval of the invoice will both happen within 5-7 days. Esker added a layer of visibility that helps staff with prompts and messages to ensure approval and process the invoices is done timely, and therefore prompting the receiving process. Staff also indicated that Esker has helped with expediting the processing and approval process of invoices. Additionally, staff indicated that the PCard flexibility to make Lab purchases is also expediting the process to approve and pay for goods needed. Staff is still working on their internal processes to ensure they can capture all items. Staff indicated there has been a significant improvement in processes. Additional staff is also assisting in the process and is currently in training. The recommendation is considered no longer applicable because Esker has added the layer of

									visibility to capture the timeliness of processing the invoices.
M&S	15	Lab	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.)	X				For goods received, the receipts are scanned and saved to one-drive that admins can access and also emailed to the admin as a backup. In the absence of a packing slip, it will be communicated to the admin and when the invoice is received, the approval of items will be coordinated with the Lab assistant or the lab supervisor.	Laboratory staff is using the scanner to upload items to OneDrive. For missing packing slips, there is no longer a need for DocuSign. If there are no delivery documents, the invoice on Esker is used for the receiving and approval process. The assistance of additional staff is also helping speed up the receiving and approval of invoices . This recommendation is considered implemented because additional technologies are being applied to improve the process.
M&S	16	Lab	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.		X			Once the PO report is received from CAPs monthly, admin will review and flag laboratory management on any old and aging POs that need to be closed or extended. Will also review all packing slips received against the existing PO for any pending charges.	Staff will run the Open PO Report for only Laboratory items to monitoring invoices that should be sent by vendors. Staff will be implementing internal training and controls to use the report. Staff indicated they do see this process as something that can be useful and valuable to monitor the invoices that should be anticipated. After training is completed for new staff and the process is on going, the recommendation will be considered fully implemented.
M&S	17	Lab	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 list to Accounting or administrative assistance as a guide). • Discuss items that always need invoices sent for signature approval (i.e., Airgas rentals).		X			Lab Supervisor will meet with the Admin Monthly to follow-up on unmatched invoices and packing slips. Admin will refer to the existing vendor list to assign incoming invoices. The list will also indicate vendors not needing approvals on invoices and can be processed as received based on packing slips.	This recommendation will be concurrently implemented with #16 above along with the training of the Open PO Report and other SAP receiving responsibilities.
M&S	19	Acct Meetings	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.	X				**4/12/2023: AP and CAP hold twice a week meeting to review and resolve any open invoice issues. We review open PO, GR, and invoices for roadblocks that could prevent them from posting for payment. We also educate each other in our processes to improve efficiency in the procure-to-pay cycle. We have an open AP/CAP chat on MS Teams to communicate daily. We also have the Internal Conversation on Esker for invoices to communicate to any relevant staff.**	On 5/10/2023 Staff indicated that AP Meetings are on Monday and Wednesday each week with Admin Assistants as needed and rely on the Esker chat/discussion option to communicate frequently. IA verified both the meetings and the chat discussions. Staff also indicated that Esker has improved visibility and any invoice approver, and the AP person can have communication on Esker. Accounting believes new initiatives have improved the payment cycle and timing. Per the response and the review of

									meetings and discussions, IA considers this recommendation implemented.
CHEM	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	**4/12/2023: Chemical receiving has been eliminated and is now a 2-way match to the PO. New SOP for Chemical invoice procedure will be created with Esker as the primary point of data entry. All processes in Esker are in real time with invoices processed as soon as available. All AP staff are able to process chemical invoices, no batch process and selected staff.**	5/10/2023 This recommendation is specific to how and what items AP staff select to perform the 3-way match and process payments. Accounting had originally committed to documenting all SOPs after all processes have been finalized and adopted. Staff indicated that with the implementation of Esker, workload and staff changes/updates, there is greater visibility of where the invoices are in the process and staff are trained to proactively process and assist other staff with the necessary steps in the process. Additionally, the 3-way match for chemicals has been eliminated therefore this recommendation is considered No Longer Applicable.
CHEM	27	Acct Training	Training should be provided periodically to reinforce the documented SOPs to ensure employees are following consistent procedures.	X				**4/12/2023: Training on the new Chemical 2-way voucher match is completed and ongoing for new staff. Verify with Teresa if the training is specific to AP (Esker approvers + Admin as needed). Save recording of training sessions and publish on SharePoint for record.**	5/10/2023: Per staff's prior responses, IA had suggested to provide AP staff with some training even if new SOPs had not yet been developed. Staff responded that training has been ongoing and continuous with the implementation of Esker, training includes anything related to assisting others to complete their receiving functions and approving invoices. IA suggested any TEAMS videos related to training, if recorded to keep on their intranet for future resource. Staff has addressed the intent of the recommendation, IA considers recommendation to be implemented.
CHEM	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			**4/12/2023: establish KPI for AP group on local processes where we can manage the process. Work with Esker to update the dashboard and new KPI for AP group. # of AP Invoice/ staff, time from submission to approval to post. KPI for departments for processing time with invoice approval. Percentage of discount captured. Money saved by discount captured. Turnaround time for invoice processing and payments.**	5/10/2023. The response is appropriate to address the recommendation. As a follow up, where will these KPIs and goals be published or how will they be used and reported and reported to who? Who will use the KPIs? The response indicates that the department will explore KPIs now that Esker has been implemented. The recommendation will continue to be In Progress as with the prior progress report until KPIs have been finalized.
CHEM	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**				X	**4/12/2023: this process is obsolete and no longer require processing 2-way match for Chemicals.**	5/10/2023 This is similar to Chem 26 related to having an SOP for how AP staff chooses and completes the 3-way matching process. This recommendation is considered no longer applicable because the 3-way match for chemicals has been eliminated, making this recommendation No Longer Applicable.

			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.						
CHEM	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	5/10/2023: this process is obsolete since we are doing 2-way match. 4/12/2023: verify with Bonnie and Sunny if there is any value in keeping the reconciliation sheet of qty and amount paid to chemical vendors. 5/3/2023: chemical vendors provide spreadsheets of all activities during the prior month (except Thatcher). Bonnie matches the spreadsheet data with Esker invoices – verify Invoice Number, quantity, Sales Tax (paid), deliver costs, and Total Amount. The total quantity is provided to Sunny to pay sales tax for Olin and Thatcher only (bleach & aluminum sulfate)	5/10/2023 This is like Chem 26 and Chem30. The intent of the recommendation is to ensure AP staff have sufficient and detailed processes to perform the needed matching in a timely manner with the goal of processing payments by the vendor's due date. According to staff and per IAs cursory review, with the implementation of Esker, there is greater visibility of the outstanding invoices, this assists staff to proactively review the items that are coming due, contact the required departments to assist with performing the needed receiving to ensure the matching goes smoothly. Staff indicated the current process is working well. Per the responses, the documented SOP is not necessary. This recommendation has been addressed and no longer applicable.
CHEM	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	4/12/2023: Receiving process has been eliminated and only 2-way voucher match is required. Matching PO to invoice only. Data entry accuracy is important to match the invoice content. Esker has automated some of this process to aid AP staff with data entry. If any issue is found, AP staff communicates with Admin staff to verify and correct the invoice/content w vendor.	5/10/2023 This is like Chem 26 and Chem 30 and Chem 31 above. The intent of the recommendation was to document a procedure for the accuracy of the 3-way match process. The 3-way match for the chemical invoices has been eliminated. Additionally, with the implementation of Esker, there is accuracy, timeliness and visibility of the information uploaded. This recommendation is no longer applicable.
CHEM	33	Acct SOP	Document and formalize in an Agency Policy or Department SOP about the requirement and expectation for the accuracy of data entry.	X				4/12/2023: no need to wait for the receiving of chemical to be done. We are doing 2-way voucher match now and there's no time lag between the receiving of invoice & processing	See comment above. This recommendation is considered Implemented because, no SOP was

			-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				in Esker. Issue is due to batch processing & delay.	documented but the intent for the recommendation was fully implemented with the visibility gained through processing invoices using Esker. With the visibility the timing of processing the invoice including completing a 3-way match and process payment is visible and completed within the vendor payment terms and payments on time. This recommendation is considered fully implemented.
CHEM	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				**4/12/2023: We no longer wait to download chemical invoices and upload. Our chemical invoices are uploaded to Esker for immediate processing within 1 business day.**	5/10/2023 This recommendation has been addressed and considered Implemented. With the implementation of Esker, all invoices are uploaded into Esker and routed for approval. Accounting staff look up contact information to properly route the invoice. This is handled and done as soon as the invoice arrives at the Agency. IA will verify the accuracy and timeliness of invoice processing in a future review. For now, the recommendation is considered implemented.
ENG	10	Acct	The Accounting management evaluate and make necessary updates to its internal processes and procedures to **ensure all professional service invoices are received by AP staff and are immediately sent to the corresponding Agency department** for approval and receiving. Accounting management continuously work closely with the E&CM Department and other Agency Departments and **keep a reference list of the professional/consulting services vendors that each Department is managing,** to ensure proper reference and routing of the invoices is done **immediately upon receipt**. This will require continuous communication with the Departments as well as continuous communication with vendors to specify instructions for submitting invoices. **Accounting management track the professional/consulting services invoices in the Invoice Held database** or other tracking database to monitor when they are received by the Agency and when they are due for payment.	X				**4/12/2023: We no longer wait to download professional service invoices and upload to SAP. Our professional service invoices are uploaded to Esker for immediate processing and route to department to review and approve within 1 business day. AP staff has been trained by CAP staff to look up vendor information associated with department contact person for consulting services. There is no need to maintain or refer to the static cheat sheet to send invoices to departments for approval. AP staff also verify with the current Organization Chart to send out invoices to the right person for approval. We no longer use the Invoice Held database, all invoices are processed into Esker immediately within 1 business day.**	5/10/2023 This recommendation has been addressed and considered Implemented. With the implementation of Esker, all invoices are uploaded into Esker and routed for approval. Accounting staff look up contact information to properly route the invoice. This is handled and done as soon as the invoice arrives at the Agency. IA will verify the accuracy and timeliness of invoice processing in a future review. For now, the recommendation is considered implemented.

P&R	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				**4/12/2023: All P&R invoices are now uploaded to Esker and sent out to P&R department immediately for review and approval. All communication is done in Esker.**	5/10/2023 This recommendation has been addressed and considered Implemented. With the implementation of Esker, all invoices are uploaded into Esker and routed for approval. Accounting staff look up contact information to properly route the invoice. This is handled and done as soon as the invoice arrives at the Agency. IA will verify the accuracy and timeliness of invoice processing in a future review. For now, the recommendation is considered implemented.
PEs	1	Acct\n\nexcel	AP should take the lead to work with IT to determine if there are ways to eliminate the many excel spreadsheets with centralized report tools from SAP. Reports should assist with the review, tracking, reconciliation and monitoring of Pay Estimate payment information. The reports should include contract spending, retention/escrow funds including contractor information, contract balance, description/pay estimate number, gross invoice, net invoice, retentions/escrow withheld, year-to-date totals, etc. SAP report tools should be available and visible to all staff that need the information.	X				**4/12/2023: AP relies on the invoice information provided by Engineering and does not track any additional spreadsheet anymore.**	5/10/2023 This recommendation has been addressed and considered Implemented. With the implementation of Esker, all Pay Estimate invoices are uploaded into Esker and routed for approval, similar to a vendor invoice. IA will verify the accuracy and timeliness of invoice processing in a future review. For now, the recommendation is considered implemented.
PEs	2	Acct\n\nexcel	Determine a method or purpose for ensuring there is evidence of supervisory review on the spreadsheets to confirm that the information is up to date, accurate and reliable. This internal control may not be necessary if reports are generated from SAP since payment information, retentions/escrows withheld are automatically and independently calculated in SAP.				X	**4/12/2023: We plan to upload all Pay Estimate invoices into Esker for Engineering approvals and processing. AP will not be maintaining a separate spreadsheet.**	5/10/2023 Accounting indicated that spreadsheets will no longer be maintained to review and verify Pay Estimate information because the PE will be uploaded into Esker just as a regular invoice, eliminating the need for spreadsheets. This recommendation is no longer applicable.
PEs	3	Acct\n\nNetwork security	Accounting should take the lead to request from IT limited access to the shared drive folder where the excel spreadsheets for Pay Estimates are located. Including removing unauthorized users and deactivate users that are no longer with the Agency.				X	**4/12/2023: AP no longer maintain the spreadsheet for Pay Estimates. The Share drive folder is only accessible by current Accounting staff.**	5/10/2023 Accounting indicated that spreadsheets will no longer be maintained to review and verify Pay Estimate information because the PE will be uploaded into Esker just as a regular invoice, eliminating the need for spreadsheets. This recommendation is no longer applicable.

PEs	4	Acct	Engineering, Finance, and IT should work together to explore possibilities of CIPO interfacing with SAP.				X	**4/12/2023: it was determined that this recommendation is not necessary with the implementation of Esker.**	5/10/2023 Accounting will not explore this option since it recently implemented Esker. This helps improve processing of PEs.
PEs	5	Acct ERP efficiency	Finance should take the lead to evaluate if there are ways to make SAP entries for Pay Estimates more efficient, currently there are two transactions codes that require processing, MIRO for the receiving and F-51 are for the retention. Determine if the receiving function in SAP is necessary or if there is a more efficient method that can be implemented to recognize the Pay Estimate liability in the Agency's financial system.				X	**4/12/2023: we can improve the process of posting the invoice match from Esker and complete F-51 for retention. These are essential processes that cannot be eliminated to capture the retention and pay the correct amounts to the vendors.**	5/10/2023 Accounting will not explore this option since it recently implemented Esker to expedite and monitor the process of invoices. Per Accounting staff, the process is as efficient as it can be set up at this time. Therefore, the recommendation is no longer applicable.
PEs	6	Acct ERP Systems interface	Finance should take the lead to evaluate reporting tools available in SAP to manage projects, contracts, contractor, etc. and eliminate the use and reliance on the many excel spreadsheets.				X	**4/12/2023: all data resides in CIPO system and AP does not track info in any additional spreadsheet.**	5/10/2023 Accounting indicated it is not necessary to explore options at this time because all project related data will reside in CIPO as it will be the primary project management tool. Therefore, the recommendation is no longer applicable.
PEs	7	Acct Systems Esker	Finance should take the lead to evaluate the possibility of using Esker to process Pay Estimates.	X				**4/12/2023: in progress. Estimated to start with Pay Estimate in April 2023.**	5/10/2023 Esker was implemented around January/February 2023. The system is working as intended. Recently staff began processing Pes through Esker and it is has worked as intended.
PEs	8	Acct Interface/ Efficiency	Finance Department should reevaluate the need to have 4 copies of the Pay Estimate saved in multiple locations (both inside and outside of SAP). Finance should work with IT and Records Management to determine the most efficient method for linking/interfacing the documentation and eliminate the need for multiple copies.	X				**4/12/2023: CIPO and Esker will be the primary document storage for Pay Estimates. Invoices in Esker are accessible from SAP.**	5/10/2023, Accounting staff indicated that CIPO will be the primary project management tool and retain all supporting documentation. Additionally, PEs will be retained in Esker. According to staff, the multiple copies of the Pay Estimates have been eliminated.
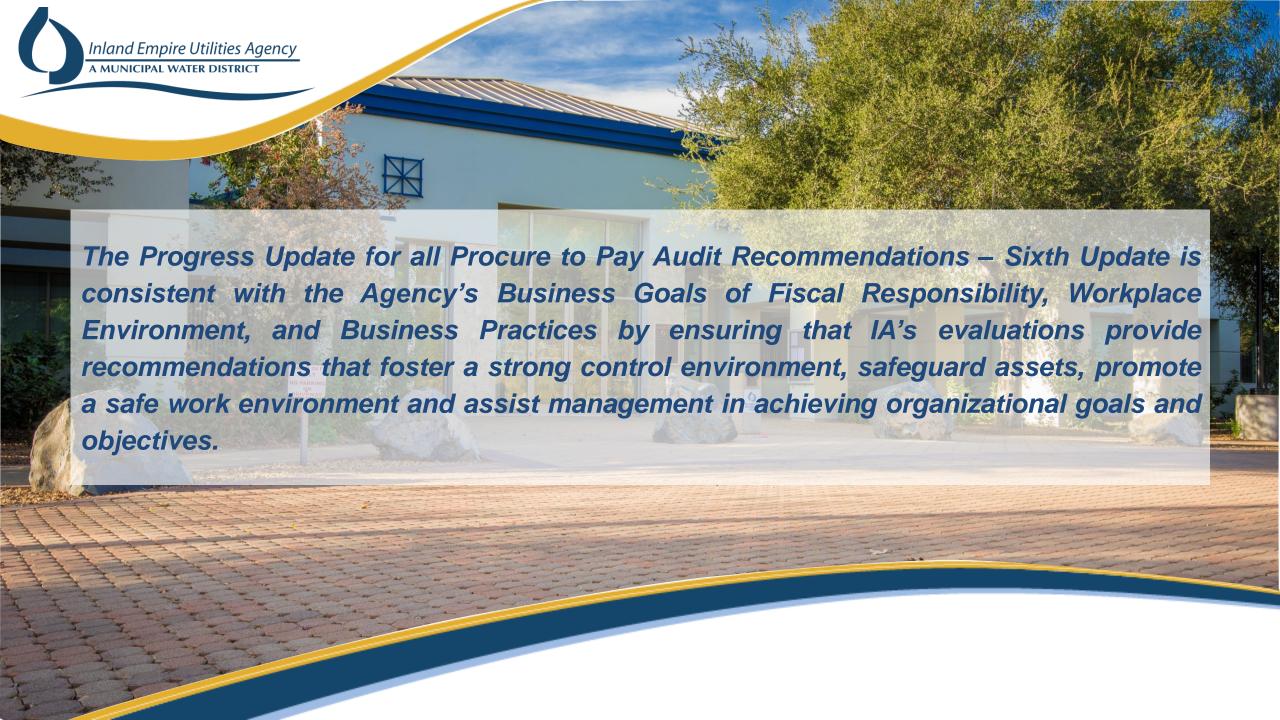
					X				
PEs	9	Acct SOPs	Finance should take the lead to document the many activities and procedures to process payments for Pay Estimates. SOPs should include information for resolving issues or discrepancies. The SOP should contain the location where necessary information is saved, such as the project spreadsheets and other information.		X			4/12/2023: new SOP will be documented with Esker point of entry.	5/10/2023 Recommendation will be considered In Progress until the SOP has been documented if Accounting believes this SOP will be beneficial to accounting staff.
PEs	10	Acct Training	Finance should provide on-going training to all staff on the various accounting responsibilities, including processing Pay Estimates to ensure the processes are working as intended.		X			4/12/2023: Training is in progress with new Pay Estimate process for all AP staff.	5/10/2023 Recommendation will be considered In Progress until the training is completed.
PEs	11	Acct Forms	Finance Management should take the lead to work with Engineering to evaluate if the Pay Estimate form requires improvements to ensure it serves as an effective communication tool for both departments about the payment information. AP relies on the information on the Pay Estimate to process accounting transactions, ensuring the information is available, reliable, visible, and complete will improve efficiencies in processing payments, retentions, escrows, etc.		X			4/12/2023: completed. Met with Rachael Solis about form requirements and provided improvement request to her 4/12/2023.	5/10/2023 Recommendation will be considered In Progress until the forms updates is complete or Accounting determines that all information on the PE form is sufficient to effectively process Pay Estimates.
			See – Report for details*	**58**	**24**	**0**	**38**		

Progress Update for all Procure to Pay Audit Recommendations – Sixth Update

Sapna Nangia

Senior Internal Auditor

July 10, 2023

Audit Recommendations related to the P2P Recommendations

Unit	Status				Total Original Audit Recommendations
	Implemented	In Progress	Not Implemented	No Longer Applicable	
Operations – Materials & Supplies	-	2	0	-	2
Maintenance – Materials & Supplies	-	2	0	-	2
Warehouse – Materials & Supplies	1	0	0	1	2
Water Quality Laboratory – Materials & Supplies	1	2	0	1	4
Facilities and Water System Programs – Materials & Supplies	-	2	0	-	2
Procurement Card Program	2	1	0	-	3
Contracts and Procurement	7	3	0	1	11
Accounting	19	4	0	19	42
Engineering	6	8	0	2	16
Operations – Chemicals	12	0	0	4	16
Engineering & Construction Management	6	0	0	1	7
Planning	4	0	0	2	6
Home Depot Credit Cards	0	0	0	7	7
Total Recommendations	58	24	0	38	120
Percentages	48%	20%	0	32%	100%

The Progress Update for all Procure to Pay Audit Recommendations – Sixth 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.

Audit Committee

**INFORMATION
ITEM
2E**

Date: July 19, 2023

To: The Honorable Board of Directors

Committee: Audit

From: Teresa Velarde, Manager of Internal Audit

07/10/23

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Report of Open Audit Recommendations as of June 2023

Executive Summary:

The Board-approved Internal Audit Unit Charter (Charter) requires the Internal Audit Unit (IA) to provide the Audit Committee and the Board with an annual report listing all outstanding audit recommendations including action plans and expected resolution dates. The Charter also requires IA staff to follow-up on the status of outstanding audit recommendations to determine if corrective action efforts have been made to address the original observations or findings. A recommendation is considered "outstanding" when management agreed with the original recommendation at the time of the audit but the area audited has not yet addressed the observation noted or requires IA's verification in order to close out the item. Responses to the recommendations, including action plans, were discussed and incorporated in the original audit report when issued. As of June 2023, 115 recommendations are considered outstanding; 12 relate to required policy updates currently under review, 31 relate to the renegotiation of the Regional Contract, 24 relate to the recent P2P audits, and 48 are eligible for reevaluation. Attached, is a complete report listing all outstanding recommendations and the status. Follow-up reviews are scheduled according to the proposed Annual Audit Plan or sooner if requested by management, the Audit Committee, the Board, or if risk and/or priority increases for the area reviewed. This report is updated, with the completion of new and follow-up audits.

Staff's Recommendation:

This is an information item.

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

Account/Project Name:

N/A

Fiscal Impact (explain if not budgeted):

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

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

-     -   -

Prior Board Action:

On June 15, 2022, the Board of Directors approved the Fiscal Year 2022/23 Annual Audit Plan.

On December 21, 2022, the Board of Directors reconfirmed the approved Audit Committee and IA Unit Charters. The Charters require an Annual Report listing all Outstanding Audit Recommendations.

Environmental Determination:

Not Applicable

Business Goal:

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

Attachments:

Attachment 1 - Report of Open Audit Recommendations as of June 2023
Attachment 2 - PowerPoint

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

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

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending finalization of IA's Follow up review
Agency Management	Regional Contract Review - Final Report	December 16, 2015	5	**Public Service Facility:** Address difference between "Publicly Owned" vs. "Publicly Used"			X
Agency Management	Regional Contract Review - Final Report	December 16, 2015	6	**Public Service Facility:** Consider cross-departmental approach to the development review process as a regional model			X
Information Technology	Follow-Up - IT Equipment Audit - ISS (IT Equipment August 21, 2012 - Original audit)	February 29, 2016	3	ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.	X		
Information Technology	Follow-Up - IT Equipment Audit - ISS (IT Equipment August 21, 2012 - Original audit)	February 29, 2016	1	ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM, or GM prior to committing to services.	X		
Information Technology	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	15	FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.			X
Information Technology	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	17	FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.			X
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	19	FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.	X		
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD (IT Equipment August 21, 2012 - Original audit)	December 5, 2016	22	FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.	X		
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD December 5, 2016	December 5, 2016	1	FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.	X		
Finance and Accounting	Follow-Up - IT Equipment Audit - FAD December 5, 2016	December 5, 2016	2	FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	X		
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	2	FAD should consider updating the "Monthly Mileage Log and Reimbursement Request" to add a designated signature area for when the petty cash funds are utilized as a reimbursement for mileage.	X		
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	3	FAD should take the lead to communicate changes to the Petty Cash policy and forms immediately after implementation, to ensure employees understand the policy and utilize the updated forms.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	4	Petty cash custodians should only accept the appropriate forms and inform the requestor of the most appropriate procurement methods if the requestor's petty cash request does not conform to Agency policies.	X		

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Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	5	FAD should take the lead to review and determine if the Petty Cash limit of $50 is adequate or if it should be updated (increased or decreased), or determine if there is a threshold that will require Executive Manager/General Manager authorization (i.e., anything over $50).	X		
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	6	Human Resources and FAD should work together to formally document or communicate the policy on the purchase and gifting of Gift Cards to ensure compliance with Federal requirements. The policy should be communicated to all Agency employees and be reminded periodically.			X
Finance & Accounting	2017 Petty Cash Audit & Follow-up Review	June 5, 2017	7	Human Resources and FAD should continue to work with the appropriate personnel in making revisions and updates to the following Agency policies that relate to cash reimbursements and controls: A-75 Employee Recognition Rewards Program, A-68 Meal Reimbursement and Unscheduled Overtime, and A-34 Vehicle Maintenance.			X
Human Resources	Payroll Operations Audit	August 30, 2017	1	IA recommends that HR consider evaluating alternatives to the manual files used to maintain employee information, for example: --Working with Business Information Systems (BIS) to develop or acquire a self-service portal for employees to make updates and changes to certain information that currently requires a hard-copy document, such as withholding information, beneficiary information, address changes, or for adding or deleting a family member from their policies, and contribution amounts to various accounts. --The Agency is in the process of implementing ECMS. HR may want to consider whether the new ECMS would provide an automated approach to maintaining and updating employee information or whether another automated approach would be possible.	X		
HR	Payroll Operations Audit	August 30, 2017	2	As part of the Agency's disaster preparedness effort, IA recommends that HR consider maintaining manual/hard-copy files in fire proof/water proof cabinets.	X		
Finance and Accounting	Payroll Operations Audit	August 30, 2017	3	FAD should update Standard Operating Procedure No. CR PR-08 to reflect the new payroll bank reconciliation process, communicate the procedure to all department employees and ensure the SOP is in the format outlined in accordance with Agency Policy A-51.	X		
Finance and Accounting	Payroll Operations Audit	August 30, 2017	4	FAD should ensure bank reconciliations are prepared monthly and supervisory review occurs in a timely manner to ensure all outstanding and reconciling items are researched, investigated and resolved.	X		
HR	Payroll Operations Audit	August 30, 2017	6	Both HR and FAD should encourage employees with payroll related functions to attend ethics/fraud awareness training specific to their job responsibilities to stay informed about new developments, risks and safeguards (for example, safeguards for potential payroll fraud, safeguarding personnel files and employee confidential information, etc.)	X		
CAP	Procurement Card Audit	March 1, 2018	1	Agency Policy A-89, Procurement Card Program should be updated to reflect desired internal controls and provide clearer guidelines about the proper use of P-Cards. The policy should provide greater clarity about the purchases that are allowed or not allowed (i.e.: food, restaurant, meals, training registrations, membership payments, etc.). Additionally, the policy should provide instructions for users to follow when there are situations that are unusual and note the additional written justification that is necessary. Lastly, A-89, should direct users to seek CAP's guidance when there is a unique need, keeping the Agency's need in mind and ensuring adequate controls are maintained.			X

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CAP	Procurement Card Audit	March 1, 2018	2	The P-Card Administrator role should be clarified in Policy A-89 and expanded to include greater oversight responsibilities to ensure compliance. The role should include duties to fully utilize the various on-line tools available through US Bank for reports, alerts, training and other controls for reviewing and monitoring activity. Additionally, the P-Card Administrator should provide assistance and give advice on the best procurement method and periodically review statements and identify purchases and transactions that are not aligned with policy and request additional information.			X
CAP	Procurement Card Audit	March 1, 2018	3	CAP should update Department-specific SOP CAP-0012 to incorporate any changes in Agency Policy A-89 Procurement card Program, including any updates to the P-Card Administrator's role and responsibilities. Additionally, CAP should ensure the SOP CAP-0012 complies with the guidelines and format set forth in Agency Policy A-51.			X
CAP	Procurement Card Audit	March 1, 2018	4	CAP and FAD should work together to utilize any in-house tools and/or online tools available through US Bank to make the review, approval, reconciliation and upload of P-Card purchases more efficient with adequate oversight.	X		
CAP	Procurement Card Audit	March 1, 2018	5	CAP should take the lead to evaluate the benefits of consolidating credit card programs to utilize P-Cards for all purchases (other than fuel) and to eliminate other vendor-specific credit card or credit programs. At a minimum, the Agency should ensure all Credit Card programs are governed by an approved Agency Policy.			X
CAP	Procurement Card Audit	March 1, 2018	6	CAP should maximize the use of the US Bank online tools for downloading/reviewing reports, creating blocks and alert notices for unusual activity, streamlining the approval, reconciliation and upload/posting process and training end users and approvers.	X		
CAP	Procurement Card Audit	March 1, 2018	7	FAD should evaluate ways for the Agency to increase and/or maximize any rebates received.	X		
Finance and Accounting	Wire Transfers Audit	March 1, 2018	2	FAD should finalize the new SOPs in the format provided in Agency Policy A-51.			X
Finance and Accounting	Wire Transfers Audit	March 1, 2018	3	The Agency should evaluate the cost/benefit of obtaining additional coverage and consider a per occurrence limit greater than $2 million to ensure the Agency has adequate insurance coverage to address the Agency's risk tolerance. In addition, to address potential uncovered losses, the Agency should consider reducing the threshold for a bank call-back to any amounts that exceed the Agency's chosen limit for Fraud Transfer Insurance.	X		
Finance and Accounting	Wire Transfers Audit	March 1, 2018	4	FAD should develop standards for documentation of transactions in SAP and a process of reviewing transactions once posted to ensure that the information in the accounting records is consistent and complete.	X		
Finance and Accounting	Wire Transfers Audit	March 1, 2018	5	FAD should document or revise a separate SOP that describes the steps in the wire transfer process for investment transactions to provide guidelines for the processing of investment transactions.	X		
Finance and Accounting	Inter-fund Transactions Audit	August 30, 2018	2	FAD should document a Standard Operating Procedure and/or Inter-Fund Transfer policy that provides clear guidance as to the methodology applied to calculate and process inter-fund transfers, including the purpose, authorization procedures and methodology applied.			X

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Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	1	In evaluating access controls over all IEUA staff that have some level of AP authorization, IA noted that some staff members have transferred to other departments at IEUA or to different functions within FAD. There is a need to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Business Information Systems (BIS) should work with Finance and Accounting Department (FAD) and Human Resources (HR) to implement additional controls to regularly evaluate and monitor employees' SAP roles and authorizations to prevent the risk of conflicts of duties. Options include: - Business Information Systems (BIS) working closely with IA and FAD to perform regular (at minimum annual) reviews and evaluations of roles and authorizations to search for conflicts of duties. - BIS working with HR to establish a formal notification method/checklist when changes occur as a result of employees changing job duties and responsibilities that may present a risk and potential conflict of duties. - BIS determining the feasibility of seeking to implement an automated program or service to scan SAP for conflicts of duties on a regular basis, either through SAP or another third-party vendor.	X		
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	3	FAD should perform a comprehensive review of all existing VMD records (particularly older records and those created by the conversion to SAP) and ensure all vendor information is complete and up-to-date and includes a verified physical address.	X		
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	4	FAD should perform a comprehensive review of the VMD to ensure only active vendors remain active and those with no activity in the previous 3-5 years are blocked appropriately. Additionally, vendors created through the conversion process to SAP and never used should be deleted.	X		
Finance and Accounting	Accounts Payable Follow-Up Audit	May 30, 2019	5	FAD should update all SOPs to reflect business process changes resulting from the implementation of the Agency's ERP SAP system of mid-2007 and any enhancements to internal controls since then.	X		
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	1	Operations & Maintenance Department should develop and document goals and objectives, Key Performance Indicators (KPIs), and/or other metrics for the Agency's fleet operations for measurement, analysis, tracking and reporting the fleet program's effectiveness. Goals should be aligned with the Division's overall mission and could include cost of fuel, fuel usage/consumption, cost of maintenance, asset value of the fleet by type of vehicle, etc. Goals should be measured, evaluated and updated periodically.	X		
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	2	Operations & Maintenance should work with US Bank to evaluate the reporting tools and features that are available to provide useful information about the Agency's fleet to identify inefficiencies, areas of improvement, and instances of unusual card usage where follow-up is be required and reduce potential risks of misuse.	X		
Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	3	The Fuel Card Administrator role should be clarified and enhanced, either in Agency Policy A-86 and/or other related policy. The Fuel Card Administrator role should be enhanced to include greater oversight roles and responsibilities, to include: - Responsibilities to maximize the use of online reports and tools available through the US Bank Fleet Commander® Online system. - Analysis and evaluation reports and communications to provide Operations & Maintenance information about the fuel card program.			X

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Opeartions or Facilities & Fleet	Voyager Fuel Card Audit	May 30, 2019	4	Operations & Maintenance should establish a process to periodically review the use of fuel cards and ensure cards no longer needed or used are deactivated to reduce risks to the Agency.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	1	Human Resources should include additional justification information for the final selection made in the recruitment file to close out the recruitment file and ensure it stands alone.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	2	Human Resources should take the lead and work with Business Information Services and determine ways to implement automated workflows for recruitment documents and forms and utilize electronic files.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	3	Human Resources should take the lead to install fireproof and waterproof filing cabinets to safeguard manual personnel, recruitment, and other HR related files, in the event of a disaster.	X		
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	4	Human Resources should take the lead to ensure all Agency policies related to hiring and recruitment, as well as the department's SOPs are updated to include the most recent and accurate requirements for the processes and Agency formats.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	5	Human Resources should work with Executive Management to determine the best approach to ensure compliance with the Agency Policy A-20 on completing timely performance appraisals for employees.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	6	Human Resources should work with Executive Management to determine an approach/method on how to address: having an Agency-wide Ethics Policy, the requirement for a Confidentiality Agreement for selected employees, and Conflict of Interest policy and related training that covers all topics. Any requirement should be documented and be clearly communicated to all Agency employees.			X
HR	HR audit: Hiring and Promotions Operations Review	December 2, 2019	7	IA recommends that Human Resources and Contracts and Procurement work together to establish written contracts for all vendors used by HR to document the scope, terms and conditions and prices for the services. The contracts should establish what information is included in the invoices for payment and what information needs to be maintained separately and confidentially.	X		
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	1	IA recommends implementing a process to review and verify recycled water records and processes (including how meters are checked, maintained and calibrated) at the individual contracting agencies to ensure completeness and accuracy of information provided to the Agency as provided in Agency Ordinance #63. An internal or external audit and/or review of contracting agency reporting of recycled water would provide an independent analysis of the information received from the contracting agencies to verify the data reported to the Agency. At a minimum, Planning staff should request additional supporting documentation from the contracting agencies periodically, to verify the information reported. This would potentially prevent, detect and/or correct any discrepancies to minimize any potential risk of error in reporting.	X		
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	3	Planning should take the lead to work together with Agency staff and the contracting agencies to develop standardized information reporting. Standardized and automated reports and methods of providing information would create efficiencies, make the process consistent and ensure accuracy.	X		
Planning & Resources	Recycled Water Revenues Audit	May 28, 2020	4	Engineering should update the Standard Operating Procedure and attached Exhibit #1: Work Instruction for Preparing Recycled Water Billing (last updated in 2015) to provide current detailed instructions and information for recording and reporting the recycled water information received from the contracting agencies.	X		
HR	Human Resources: Workload Indicators Review	May 29, 2020	1	HR should evaluate the Department Workload Indicators as reported in the Agency's Budget document and consider additional and/or different Workload Indicators that provide information about the various activities of the department and ensure they are aligned to the department's goals.	X		

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HR	Human Resources: Workload Indicators Review	May 29, 2020	2	HR should document a Standard Operating Procedure or desk procedures to ensure consistency in the data collected and the method in calculating workload indicator results as documented in the Budget Book.	X		
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	1	HR should re-evaluate the purpose and objective of the "Training Hours per Employee" Workload Indicator reported in the Agency's Budget document, determine what the indicator is intended to measure, capture and report and how the indicator aligns with the department's goals and the overall Agency goals and objectives.	X		
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	2	HR should re-evaluate the calculation applied for "Training Hours per Employee" to ensure it is capturing the intended type of training. If the intent is to capture all training including training not administered through HR, periodically remind employees, supervisors and managers to appropriately code each type of training on timesheets to ensure the needed information is captured for the Workload Indicator.	X		
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	3	HR should take the lead to work with Records Management on the record retention needs of the department and ensure the information in ABRA is managed and follows the recommended record retention guidelines to ensure the Agency complies with any requests and to minimize any potential risks of retaining older personnel records in the ABRA system.	X		
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	4	HR should reevaluate Skillsoft as a training resource and consider establishing goals and objectives for the utilization of Skillsoft for employee training and development. Additionally, if HR determines Skillsoft is a beneficial training resource, HR should implement plans to increase utilization of Skillsoft.	X		
HR	HR Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	HR should determine the need to either delete or update Agency Policy A-57.			X
Finance and Accounting	Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	Finance and Accounting Department (FAD) Facilities Management should work together to reconcile the asset records in SAP: • The Finance and Accounting Department (FAD) should periodically share the Fixed Asset List Report to Agency departments. • Facilities Management should work closely with FAD to reconcile their internal reports to the financial information and resolve differences immediately. The departments work together to reconcile all internal reports used to track assets under their responsibility, perform periodic reconciliations, ensure the same identifying information identify assets in all report and complete all needed documents and forms for proper accountability of disposals, surplus, new purchases, etc. • FAD should and will continue to provide on-going training and departments should reach out for additional information and guidance. • Facilities Management should document their own SOP for the process of adding, removing and tracking assets under their custody	X		

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Finance and Accounting	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Chemicals (P2P-Chemicals)	November 24, 2021	29	Accounting should establish and document performance metrics and KPI's, goals and objectives and a method to measure how timely invoices are paid. Work with BIS to establish any reports that can provide measurements and metrics.	X		
CAP	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Planning & Resources (P2P P&R)	May 25, 2022	8	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		
Procurement Card Administrator	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	1	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.	X		
CAP	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	4	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.			
CAP	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	5	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.			

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Facilities and Water System Programs	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	6	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 established for chemical receiving is done within 5-7 days).	X		
Facilities and Water System Programs	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	7	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.	X		
Operations	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	8	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.	X		
Operations	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	9	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.	X		
Maintenance	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	10	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.	X		
Maintenance	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	11	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.	X		
Water Quality Laboratory	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	14	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 into SAP, for both goods and services. (Similar to the new procedures established to ensure receiving for chemicals is completed within 5-7 days).	X		

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Water Quality Laboratory	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	15	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.)	X		
Water Quality Laboratory	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	16	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.	X		
Water Quality Laboratory	Accounts Payable and Internal Control Audit Report - Review of Procure to Pay Processes for Materials & Supplies (P2P M&S)	December 2, 2022	17	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 list to Accounting or administrative assistance as a guide). •Discuss items that always need invoices sent for signature approval (i.e., Airgas rentals).	X		
Accounting	Review of Pay Estimate Processes	February 27, 2023	9	Finance should take the lead to document the many activities and procedures to process payments for Pay Estimates. SOPs should include information for resolving issues or discrepancies. The SOP should contain the location where necessary information is saved, such as the project spreadsheets and other information.	X		
Accounting	Review of Pay Estimate Processes	February 27, 2023	10	Finance should provide on-going training to all staff on the various accounting responsibilities, including processing Pay Estimates to ensure the processes are working as intended.	X		
Accounting, Engineering, and IT	Review of Pay Estimate Processes	February 27, 2023	11	Finance Management should take the lead to work with Engineering to evaluate if the Pay Estimate form requires improvements to ensure it serves as an effective communication tool for both departments about the payment information. AP relies on the information on the Pay Estimate to process accounting transactions, ensuring the information is available, reliable, visible, and complete will improve efficiencies in processing payments, retentions, escrows, etc.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	12	Engineering Management should take the lead to evaluate the accuracy and reliability of using CIPO to ensure the system is the most effective tool to gather Pay Estimate information. Or work closely with IT to evaluate if there are modules or functions in SAP, the Agency's ERP system, to upload Pay Estimate information.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	13	Engineering Management should work with CIPO to develop an ongoing process to test and verify the reliability of patches and updates to ensure CIPO has accurate formulas and calculations before relying on the data and submitting to AP for processing.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	14	Engineering Management must implement additional internal controls to ensure there is adequate review, verification, and approval of the Pay Estimate information from the Project Managers and other reviewers and approvers prior to submitting to AP for payment, to ensure its accuracy and prevent delays in payment process.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	15	Engineering Management must implement additional internal controls and provide staff training to ensure the Receiving function in SAP is performed correctly. Additionally, there should be a process to review the receiving information entered by staff prior to information sent to AP, to ensure its accuracy and prevent delays in payment process.	X		

Department Assigned	Audit Report Title	Date Audit Report Issued	Rec #	Internal Audit Recommendation	In Progress	Not Implemented	Outstanding pending finalization of IA's Follow up review
Engineering	Review of Pay Estimate Processes	February 27, 2023	16	Engineering Management should take the lead to reevaluate the processes for Pay Estimates and determine the need to have the Pay Estimate documentation saved/uploaded in multiple locations (both inside and outside of SAP). If needed, work with IT and Records Management to determine the most efficient method for linking and/or interfacing the documentation and eliminate the need for multiple copies	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	17	Engineering should take the lead to work with IT and possibly Finance, to determine if there are ways to eliminate the reliance on excel spreadsheets with centralized reports from SAP or leveraging AP's spreadsheets. Reports should assist with the review, tracking, reconciliation and monitoring of Pay Estimate payment information. The reports should include the needed information that both departments rely on. SAP report tools should be available and visible to all staff that need the information.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	24	Engineering Management should take the lead to work with AP to tighten internal controls to ensure payments are made according to PCC rules, Net 30. See all recommendations provided in this report to improve processes and implement efficiencies to ensure the payments for the Pay Estimates are processed, reviewed, approved and received in SAP in a timely manner and provide AP sufficient time to reconcile and process payments, to ensure the Agency does not incur an interest and/or have to pay a contractor interest.	X		
Engineering	Review of Pay Estimate Processes	February 27, 2023	27	Engineering should provide on-going training to all staff on the various Pay Estimate requirements and responsibilities; including carefully reviewing and comparing information from the schedule of values to the Pay Estimate, and ensure the receiving is done correctly to ensure the processes are working as intended and minimize delays to the payment processes and minimize AP's review, reconciliation and involvement in verifying data.	X		

Report of Open Audit Recommendations

Teresa Velarde

Manager of Internal Audit

July 10, 2023

Outstanding Audit Recommendations

Area Audited	Report Issued Date	No. of Recs. Remaining to be Verified by IA	Planned Follow-Up
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1	FY 2023
Accounts Payable Follow-Up *(Deferred Recommendations related to Agency Policies)*	August 29, 2013	2	FY 2024
Follow-Up – IT Equipment Audit – ISS	February 29, 2016	2	FY 2024
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6	FY 2024
2017 Petty Cash Audit & Follow-Up Review	June 5, 2017	7	FY 2024
Payroll Operations Audit	August 30, 2017	5	FY 2024
Procurement Card Audit	March 1, 2018	7	FY 2024
Wire Transfers Audit	March 1, 2018	4	FY 2025
Inter-fund Transactions Audit	August 30, 2018	1	FY 2025
Accounts Payable Follow-Up Audit	May 30, 2019	4	FY 2024
Voyager Fuel Card Audit	May 30, 2019	4	FY 2024
Human Resources Audit: Hiring and Promotions Operations Review	December 2, 2019	7	FY 2025
Recycled Water Revenues Audit	May 28, 2020	3	FY 2025
Human Resources: Workload Indicators Review	May 29, 2020	2	FY 2025
Human Resources Operational Audit: Administration of Employee Training and Development Programs	August 31, 2020	5	FY 2025
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) • Materials & Supplies (December 2022) • Pay Estimates (March 2023)	Dates noted on first column to the left	24	On-going
Regional Contract Review –Final Audit Report (planned for implementation with the renegotiation of the Regional Contract)	December 16, 2015	31	FY 2023
Total Outstanding Audit Recommendations		**115**	

Report of Open Audit Recommendations

As of June 2023, 115 recommendations remain outstanding:

- 48 - are eligible for follow-up evaluation

- 24 - relate to ongoing P2P follow-up reviews completed quarterly

- 12 - require Agency policy updates

- 31 - renegotiation of the Regional Contract

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

Audit Committee

**INFORMATION
ITEM
2F**

Date: July 19, 2023

Teresa Velarde

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

Committee: Audit   *07/10/23*

Manager Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Quarterly Status Report for June 2023

Executive Summary:

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

During this quarter, along with additional routine audit projects and administrative tasks, IA staff completed the Audit of Large and Heavy Equipment, the Follow Up Review of the 12 recommendations related to updates needed to Agency Policies and the sixth Progress Update for all P2P audit recommendations as well as other audit projects and activities.

IA continues to participate in various committees and discussions and assists with requests for review of Agency policies and procedures, and provides training and recommendations to improve internal controls.

For additional information and insight, attached is a published article by the Institute of Internal Auditors, Tone at the Top which discusses non financial risks.

Staff's Recommendation:

This is an information item.

Budget Impact *Budgeted (Y/N):* Y   *Amendment (Y/N):* N   *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 21, 2022, the Board of Directors reconfirmed the approved Audit Committee and IA Unit 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 Quarterly Status Report for June 2023
Attachment 2 - Tone at the Top by the IIA

Projects Completed This Quarter

Project:

Large and Heavy-Duty Equipment and Vehicles Audit

Scope:

To evaluate the processes and internal controls in place to record, inventory, safeguard, and inspect the Agency's large and heavy-duty equipment and vehicles under the Fleet Management Program that is managed by Facilities & Water Systems Program (Facilities or Facilities Unit). In addition, to identify opportunities to improve operations. Lastly, to follow up on one open recommendation from the Agency Vehicle Operational Follow-Up Audit Review of Vehicle Inventory Procedures completed on May 27, 2021.

Status: Complete

Facilities currently manages 23 large and heavy-duty equipment and vehicles that falls under their purview. Internal Audit (IA) did not review the large and heavy-duty equipment assigned to other Agency departments (i.e., Maintenance) or the Inland Empire Regional Composting Authority (IERCA or Compositing facility). For this audit, IA worked closely with Facilities and Accounting (within the Finance Department). IA reviewed the controls in place and identified areas that could be improved. The bullet points below provide a summary of the audit:

- IA recommends the department perform routine inspections of the large and heavy-duty equipment and vehicles. Currently, Facilities does not perform inspections. IA's observations of the assets identified items that require attention and review.

- IA recommends the department perform periodic reconciliations of the different asset lists and reports for large and heavy-duty equipment and vehicles. There is no current process in place to reconcile these asset lists or reports by either Facilities or Finance. IA's reconciliation noted several items could not be matched or reconciled because there was not one key identifying piece of information consistent across all reports. This impacts the amount the Agency presents on the financial statements.

- The Agency must ensure compliance with accounting disclosures of recording an asset immediately when it is placed in service. Currently, assets are recorded and capitalized when the capital project is closed, instead of when the asset is place into service. This impacts the Agency's financial reporting and compliance with the accounting rules and requirements.

- One open recommendation provided during the 2021 follow-up review, which was related to periodically reconciling the department's records and the accounting records for vehicles continues to be in progress. The one recommendation has been revised and restated into new 2023 recommendations, and requires future follow-up and verification by IA.

Details of the observations and recommendations are included in the audit report, under separate cover.

Project:

Follow-Up Review of Recommendations Related to Agency Policies and Ethics Point, Board Resolutions, and Administrative Handbook

Scope:

The purpose of this follow up evaluation was to 1) centralize, into one report and under one department the 12 outstanding audit recommendations related to the need to make updates to existing Agency policies, 2) provide recommendations related the Agency's reporting hotline information webpage and 3) provide recommendations related to the Agency's policy about employee ethical conduct and conflict of interest.

Status: Complete

IA worked closely with the Human Resources Department (HR) to evaluate the 12 outstanding audit recommendations related to Agency policies, the information referenced in the Agency's reporting hotline webpage and the Administrative Handbook. HR stated that making the necessary updates to Agency policies has been a priority and is currently pursuing filling department staffing needs with the needed expertise to take the lead on these priorities. This report discusses the items that require attention. Some Agency policies require updates, some are outdated. Since 2012 and earlier, IA has made several recommendations related to the need to make policy updates. This report provides details of the findings and provides 21 recommendations to address each of the Agency policies that require updates. The report attached provides details of the review.

Project:

Accounts Payable Operational and Internal Control Audit:
Quarterly Progress Update for all P2P Audit Recommendations – 6th Progress Update

Scope:

The purpose of the Progress Update for all Procure to Pay (P2P) Audit Recommendations is to provide a status update related to the 120 audit recommendations provided through the P2P audits.

Status: On-going

As of May 31, 2023, of the 120 audit recommendations provided through the P2P audits, 58 are now considered implemented, 24 are in progress of being implemented and 38 are considered no longer applicable because alternate controls were implemented. Of the 24 recommendations in progress, 4 are in progress of being implemented by Finance, 8 are in progress of being implemented by Engineering, 3 are in progress of being implemented by Contracts and Procurement, 1 is in progress of being implemented by the Procurement Card Program Administrator, and the remaining 8 are in progress of being implemented by various Agency units/departments. IA will continue to provide quarterly progress reports until all audit recommendations have been addressed.   The report is included under a separate cover and provides details.

Project:

Navex/EthicsPoint System Upgrade

Scope:

EthicsPoint is the Agency's reporting hotline system. Navex is the company that oversees the EthicsPoint system. This calendar year, Navex upgraded the overall system to improve functionality, make the system and the reporting hotline more user friendly to make reports, use, and manage cases and reports. IEUA had to ensure it made the needed upgrades to ensure continuity and keep up with the supported system.

Status: Complete

In the past 3 years, the Agency has received less than 5 cases per year. Reports that come through EthicsPoint go directly to the attorney's law firm, these are managed directly by the attorneys as they are the individuals who receive and determine the proper assignment of each according to the sensitivity and the needed expertise to handle the reports. The Manager of IA reviews the cases each year to determine if there is a need to incorporate additional projects as part of the annual audit plan. Additionally IA manages the budget for this system, currently at approximately $1,900 per year. The Manager of IA worked closely with software representatives from Navex to ensure the upgrade of the system was necessary, would be complete and seamless, with minimal downtime and minimal work from the Agency's attorneys. The Manager negotiated a lower price than originally quoted for on going services and worked closely with CAP and IT to review and verify the contract documents and the

software requirements. Once all background research, work and questions were addressed and agreed to, the Manager of IA on-boarded the Agency's attorney to ensure he had all the access and training needed for the upgraded EthicsPoint system. Overall, the project was seamless and required a small amount of time from others not in Internal Audit.

Project:
Single Audit Filing Requirements
Scope:
Annually, IA takes the lead to file the Single Audit Reporting package and other Financial Statements/Reports with the various regulatory agencies. The Single Audit Reporting packages are due nine months after the entity's fiscal year end according to 2 CFR 200.512, which is March 31st.
Status: Complete
Each December, IA presents the IA's Quality Control Review of the Agency's Annual Comprehensive Financial Report. IA coordinates with the External Auditors and the Accounting Unit to provide IAs observations related to IAs quality control review. Additionally, every year, once all audit reports have been completed by the External Auditor and approved for distribution by the Board of Directors, IA takes the lead to ensure these are filed with the required regulatory agencies.

In March 2023, IA completed the required filings with the State Controller's Office, State Water Resources Control Board and County of San Bernardino. Documents filed included: IEUA's Single Audit Reporting Package*, Chino Basin Regional Financing Authority's (CBRFA) Financial Statements, and the Inland Empire Regional Composting Authority's (IERCA) Annual Financial Report for Fiscal Year (FY) 21/22.
(*Note: Single Audit Reporting package is comprised of the IEUA's Annual Comprehensive Financial Report and Single Audit)

To complete the filing, IA had to coordinate with the Grants, Accounting and Records Management to gather the information needed for the filing. IA updated and notified each of the respective departments after the filing had been completed and provided the information for the Agency's record retention requirements.

Projects In Progress
Project:
Audit Software Review Project: Workpaper and Data Analytics Software Tools
Scope:
IA is evaluating the costs and benefits of implementing automated audit tools to enhance audit processes. The Institute of Internal Auditors (IIA) Audit Standard 1220.A2 provides guidance for exercising due professional care for internal auditors. IIA 1220.A2 states that internal auditors must consider the use of technology-based audit and other data analysis techniques.

The use of technology, including, an automated working paper system as well the use of data analytics would enhance the audit capabilities and efficiency of the audit process. Currently, IA is using Microsoft Office products. SharePoint is not geared toward auditing tools and creating audit workpapers. Resources, including costs and staff time, will be necessary for implementation and maintenance. IA is carefully evaluating costs/benefits as well as risks and opportunities. Benefits and opportunities include time saving; quicker, 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. In January 2023, the Agency implemented Esker, a new invoice recognition software system. This system will assist the Agency with improving visibility of routing and tracking all invoices. IA plans to explore the features available within Esker to determine if there are any analytical reports and tools for audit procedures. For this reason, IA has delayed further evaluation of audit software tools.

Any proposed plans to move forward with the audit workpaper software tool will be discussed in detail with the General Manager and any affected Agency departments. IA will bring updates to the Audit Committee as required. Any proposed changes will be carefully evaluated, budgeted, and planned with sufficient advanced time and notice.

Project: On-going Committees & Meetings
Scope:
IA is asked to participate in various meetings to gain an understanding of the Agency's priorities, risks, and be a resource to provide feedback and recommendations.
Status: On-going
During this quarter, IA participated in meetings related to the Agency's Budget, various Finance Meetings related to Esker and improvements in efficiencies and GASB 96, Safety Committee, 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. During this quarter, IA spent approximately 40 hours of staff time participating in these types of meetings.
Project: **Follow-Up IT Equipment Audit – Information Technology Department & Cybersecurity Assessment**
Scope:
To evaluate the status of the two open audit 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.   Additionally, to evaluate additional areas that require review and evaluation including processes for the inventory and accountability of computer equipment issued for remote work. Lastly to perform a cybersecurity assessment including evaluating that the Agency has plans for the mitigation and resolution of any potential cyber-attack, or a disaster preparedness plan.
Status: In Progress
IA has met several times with Information Technology staff to discuss audit plans. IA is working closely with IT staff to assess cybersecurity controls, determine future internal audit assessments and evaluate the audit recommendations. During the meetings it has been discussed the approach for technology assets inventory,

capitalization policy, cybersecurity controls, incident response plans and IT initiatives. The outstanding recommendations may no longer be applicable. IA is working closely with IT staff to finalize and determine the scope of an audit and propose the project under the FY 2023/24 Annual Audit Plan in June 2023.

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 reportable 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.

Report of Open Audit Recommendations

Scope:

To evaluate the implementation status of the outstanding recommendations.

The Internal Audit Unit (IA) 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 identified. IA performs follow-up reviews to ensure that risks have been addressed and the recommendation is cleared/satisfied when corrective actions are implemented. Follow-up reviews are scheduled through the Board-approved Annual Audit Plan. Agency Management supports the implementation efforts of the recommendations previously provided and/or the development of alternative controls to address the original risks identified.

Status: On-going

As of June 2023, there are 115 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*
Agency Vehicle Operational Follow-up audit: Review of Vehicle Inventory Procedures	May 27, 2021	1
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
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
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) • Materials & Supplies (December 2022) *(Open recommendations as of March 1, 2023)*	See dates each audit was completed under column called Area Audited	24
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		**115**

* Items/changes resulting from projects completed during this quarter are not updated on this chart. This Outstanding Recommendations Table is updated only when audit reports have been received and filed by the Audit Committee and the Board of Directors.

Summary
As of June 2023, 115 recommendations remain outstanding: o 31 relate to the renegotiation of the Regional Contract (to be evaluated next quarter) o 12 relate to upcoming updates to Agency policies which is being facilitated by an outside consultant working with Human Resources Unit, **Eligible for follow up evaluation:** o **24 recommendations relate to ongoing P2P follow-up reviews completed quarterly** o **48 recommendations are eligible for follow-up evaluation**

Special Projects

Purpose:

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 Charter and the Audit Committee Charter, the Annual Audit Plan, and audit guidelines. Special Projects can be short or long-term projects, typically requiring approximately more or less 80 hours of staff time and requiring setting aside or delaying work on scheduled audit projects.

Scope:

The scope of the review is not generally known, the scope of the work is planned in response to the special project requirements and the work must be handled with the highest degree of confidentiality, sensitivity, and care, as with all audit projects. Special Projects are usually considered highly confidential.

Status: On-going and Complete

During this quarter, the Manager of Internal Audit has also been involved with additional projects that are on-going. IA will report once items have been fully evaluated and closed out.

Management Requests

Purpose:

IA assists Agency Management with analysis requests, evaluations, and information verification; assists with the interpretation of Agency 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 IA Unit Charter, the Audit Committee Charter, the Annual Audit Plan, and best practices. Management requests are short-term projects, typically lasting no more than 80 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.

Scope:

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. The scope of the review is planned according to the requirements of the request.

Status: On-going

During this quarter, IA provided fraud training to the Accounts Payables group, provided assistance with various items related to accounts payable, GASB96, the financial audit, and various other topics, attended meetings and responded to requests to evaluate Safety related policies, continued engagement and assistance with Esker implementation questions, and discussions related to the GASB 96 and Agency's tax filing responsibilities and continued discussions related to the implementation of schedules and plans related to the financial audit of IERCA and the IEUA Single Audit.

Audit News and Trends

Attached is the latest issue of *Tone at the Top*, published by the Institute of Internal Auditors. This is a newsletter targeting senior management, boards of directors and audit committees with highlights of key topics related to the audit function. The topic in April was focused on organizational risks that are non-financial in nature. Specifically, the article discusses the importance on focusing on those non-financial areas that may be of high

priority, for example "*operational, compliance, cybersecurity, reputational, environmental, employee conduct, ethical and corporate culture, public health, social justice, diversity, equity and inclusion, human rights, strategic, third-party, geopolitical, natural resources, human resources, and data integrity risk—among others*". See the attached guidance for additional information. It should be noted that IA does mainly focus on the non-financial operations of the agency when conducing audits. IA audits encompass areas related to compliance, financial, operational while focusing on efficiencies and noting other risks that may affect the Agency.

Internal Audit Staffing and Professional Development

Staffing

The Internal Audit Department is staffed as follows:
- 1 Full-time Manager of Internal Audit
- 1 Full-time Senior Internal Auditor
- 1 Full-time Internal Auditor
- 1 Part-time Internal Audit Intern

Professional Development

As required by the International Standards for the Professional Practice of Internal Auditing, and the IA Unit 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 3-day Leadership Conference
- CSMFO – Public Sector Budgeting
- ISACA & IIA LA – Cybersecurity Audit Program
- IIA OC – Teaching Auditors How to be Better Thinkers
- IIA Inland Empire – Professional Development Conference
- IIA – Collaboration of the 7 chapters – all day conference - Internal Audit Hot Topics & IA Awareness Month
- IIA ChatGPT and Generative AI – Risks and Ethical Concerns
- GASB 96 implementation – various CPA firms

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

Future Audit Committee Meeting Dates

- *Monday, September 11, 2023 – Regularly Scheduled Audit Committee Meeting*
- *Monday, December 11, 2023 – Regularly Scheduled Audit Committee Meeting*
- *Monday, March 11, 2024 - Regularly Scheduled Audit Committee Meeting*
- *Monday, June 10, 2024 - Regularly Scheduled Audit Committee Meeting*

Internal Audit Staff participated in various professional development and volunteer opportunities.

Sapna Nangia and Dominic Palencia volunteered during the Earth Day School Event:

In May, the Institute of Internal Auditors, the Inland Empire Chapter hosted a full day education event at IEUA. In appreciation of IEUA hosting the IIA for the second year in a row, IEUA was presented with a plaque. Sapna Nangia was recognized for earning her Certified Internal Auditor (CIA) Certification.

TONE at the TOP®

Adjusting the Risk Appetite for Non-Financial Measures

Risk appetite — the level of risk that an organization is prepared to accept in pursuit of its objectives — is fundamental to effective governance in all organizations, and boards play a critical role in setting that appetite. But are credit and market risks and other financial factors the only issues that should be considered? Despite their name, non-financial risks can also have a significant financial impact on an organization. As companies focus on governance, risk, and compliance concerns, they should consider how non-financial risk is impacting the success of their enterprise risk management (ERM) efforts and overall risk appetite.

The sheer number of risks that fall into the non-financial category raises the chances that some may be overlooked. They may include operational, compliance, cybersecurity, reputational, environmental, employee conduct, ethical and corporate culture, public health, social justice, diversity, equity and inclusion, human rights, strategic, third-party, geopolitical, natural resources, human resources, and data integrity risk—among others. This partial list shows just how significant non-financial risks can be and makes the case for incorporating them into any discussion on risk appetite. Indeed, "non-financial risks now pose a potentially costlier threat than financial exposures," according to PwC.[1]

"Non-financial risks now pose a potentially costlier threat than financial exposures." PwC

Expecting the Unexpected

Organizations should be aware that this is an evolving area where new and unfamiliar risks should be expected to emerge. Five years ago, for example, few companies had protocols in place to deal with a potential global health crisis that would interrupt worldwide economic activity, upend supply chains, and bring some industries to a virtual halt, but the COVID-19 pandemic highlighted the need to expect the unexpected.

Even when organizations believe they have their arms around potential non-financial risks, they may not anticipate all the issues that can arise. Privacy risk, for example, seems like a well-known consideration, but it can become a problem in unexpected ways. One well-known retailer experienced reputational damage when

it was reported that a parking system app used by its landlord was tracking customers' browser usage. In the uproar that ensued, the retailer argued that it was not in charge of the app, but the reputational damage was done.

The board has an important role in this effort. Regarding environmental, social and governance (ESG) issues, which encompass many common types of non-financial risk, "boards need to continuously examine and question information provided by management and recognize that ESG is an enterprise-level risk that should be viewed through the lens of strategy and operations," according to a National Association of Corporate Directors report.[2]

The Institute of Internal Auditors

An Alphabet Soup

Identifying and measuring non-financial risk is an important concern, but there is little consistency in guidance on how this should be done. There is currently an alphabet soup of frameworks and standards that organizations can choose to use but no actual comprehensive requirements at the federal level in the United States and no globally embraced standards. For the moment, the available guidance covers a number of different areas, as demonstrated by the 23 non-financial measurement and reporting standards and frameworks in a list compiled by the Center for Sustainable Organizations.[3] They are categorized based on considerations such as primary constituency of interest (shareholder versus stakeholder), performance constructs of interest (risk, value creation/impact valuation, sustainability), triple bottom line considerations, and primary form of measurement (incrementalist versus context based). Organizations can choose to follow one set of guidelines, to mix and match rules from more than one, or to opt out of this type of reporting altogether. However, the latter may not be a truly viable option going forward. Internal audit can provide insights to help organizations make sense of measurement and reporting options at a time when there is increasing pressure on organizations from a wide range of stakeholders who want more information and transparency on non-financial issues, including ESG. For some of the world's largest institutional investors, "ESG has become a proxy for good risk management and long-termism, two primary concerns today," according to management consulting firm Russell Reynolds Associates.[4]

An Evolving Regulatory Landscape

The number of disclosure regulations involving non-financial risk is growing rapidly worldwide, with European Union regulators leading the way. In the U.S., reporting regulations in two non-financial areas are on the imminent horizon. Last year, the U.S. Securities and Exchange Commission (SEC) proposed to require registrants to include specified climate-related and cybersecurity disclosures in their registration statements and periodic reports. For climate concerns, disclosures would include details on risks that could have a material impact on the business, results of operations, or financial condition, along with some climate-related financial statement metrics and disclosures on greenhouse gas emissions.[5] Regarding cybersecurity, there would be amendments to the commission's rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incident reporting by public companies.[6] Although the proposals are aimed at listed companies, private company stakeholders may also press for similar disclosures.

Gathering Non-Financial Risk Data

Many organizations may have some well-established procedures in place related to specific non-financial information, so it's important to understand what data is already available, especially if reporting and disclosure becomes mandatory in some areas. Companies likely have collected a great deal of data for compliance with rules set by regulatory bodies. In the U.S., examples include the Environmental Protection Agency, Occupational Safety and Health Administration, Department of Labor, Department of Commerce, and others. Risk management procedures related to COSO's internal control framework and ISO management systems may also be capturing information on non-financial issues. Internal audit can help companies assess the data on hand to identify information gaps and to avoid duplication of efforts.

The Institute of Internal Auditors

However, even though companies may already have information, it's important to be aware that, because of the lack of consistent reporting requirements for non-financial risks and lack of familiarity with this area, the processes and procedures around them may be inadequate. Controls and risk assessment procedures may be less developed in some functions than in others, or insufficient for current needs. The information may be coming from a range of areas—such as human resources, procurement, ESG, or sales—making it challenging to identify and gather. Regarding ESG, "fraud risk in this area should be top of mind for audit committees and a focal point in fraud risk assessments overseen by the audit committee," according to a Deloitte report, which noted that this risk is not governed by the same types of controls present in financial reporting processes. As a result, it may be easier to manipulate voluntarily reported data on carbon emissions or other key non-financial measures. [7]

Private companies may find their controls are lacking. There's clearly room for boards to make a difference on this front. Fourteen percent of private companies told the NACD that their boards had not focused on ESG issues over the past 12 months, compared to only 3% at public companies, which face more demands for data in this area. Only 39% of private companies said their board has reviewed ESG-related risks and opportunities for the company. [8] (See figure 1.)

Figure 1 - **Which ESG Oversight Practices Have Boards Performed in the Last 12 Months?**

Source: : 2022 NACD Board Practices and Oversight Survey—ESG: Compare and Contrast Among Public and Private Companies

Involving Internal Audit

To help leadership understand and tackle non-financial risks, internal audit leaders can use their holistic understanding of the entity's many facets—and threats- to identify risk considerations and provide advice on how best to deal with them.

Internal audit teams build their audit plans on a number of factors, among them the organization's overall risk appetite. Auditors consider the organization's financial risk limits and appetite statements, as well as considerations such as laws and regulations, organizational policies and standards, and the expectations of stakeholders-such as the board, investors, analysts, customers, employees, and business partners—as well as industry standards.

One step for boards is to see that internal audit has a chance to play a critical role in ensuring the completeness and accuracy of non-financial data. Unfortunately, many organizations are not making full use of the contribution that internal audit can make. The chief audit executive (CAE) reports to the board on ESG issues at only 11% of public companies surveyed and 8% of private companies, according to the NACD survey.

Internal audit can provide data and advice that can help mitigate and identify risks that include:

• **Impact on the business model.** Companies may find themselves facing unexpected pressure to adopt new practices that address unexpected non-financial risks.

• **Loss of competitive edge.** Non-financial risks have the potential to damage a company's market share and reputation.

• **Difficulty accessing capital or higher borrowing costs.** Investors or lenders may require greater transparency on non-financial risks than the company can offer.

• **Labor disadvantages.** A tight hiring market or lack of employee engagement could be damaging, particularly if a company appears as an unappealing place to work.

• **Social and geopolitical implications.** Companies may fail to anticipate localized social or civil unrest.

A Deep Understanding

"Risk management cannot be seen as a collection of static practices but must evolve to keep pace with rapidly changing business models," according to a McKinsey report. [9] As companies monitor and maintain risk approaches for non-financial data, internal audit can provide a deep understanding of the organization and ongoing insights in a changing and uncertain risk landscape.

QUESTIONS FOR BOARD MEMBERS

» Are non-financial risks incorporated into our organization's risk appetite?

» How does our organization monitor non-financial risk?

» What controls are in place to identify, prevent or mitigate non-financial risks?

» Are these controls regularly evaluated and updated?

» Is the board receiving independent assurance from internal audit on non-financial risk measurement and oversight?

Quick Poll Question

Are non-financial risks incorporated into your organization's risk appetite?

◯ Yes

◯ No

◯ Don't Know

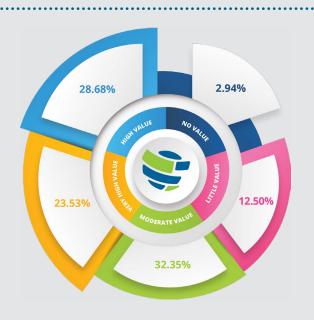Visit theiia.org/Tone to answer the question and learn how others are responding.

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2023-6325

QUICK POLL RESULTS

Overall, how would you rate the value that has been created from internal audit's use of data analytics or automation at your organization?

Chart showing:
- HIGH VALUE: 28.68%
- NO VALUE: 2.94%
- LITTLE VALUE: 12.50%
- MODERATE VALUE: 32.35%
- VERY HIGH VALUE: 23.53%

Source: Tone at the Top December 2022 Quick Poll Survey.

[1] "Taking Control: How to Get on Top of Non-Financial Risk," Christopher Eaton and David O'Brien, PwC, March 9, 2021.

[2] 2022 NACD Board Practices and Oversight Survey—ESG: Compare and Contrast Among Public and Private Companies, NACD, 2022.

[3] https://www.sustainableorganizations.org/Non-Financial-Frameworks.pdf

[4] "ESG and Stakeholder Capitalism," Andrew Droste, Russell Reynolds Associations, published by Bloomberg Law, April 2020.

[5] "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," US Securities and Exchange Commission press release, March 21, 2022.

[6] "SEC Proposes Rules on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure by Public Companies," SEC press release, March 9, 2022.

[7] "Emerging Fraud Risks to Consider: ESG; On the Audit Committee's Agenda," Deloitte, July 2022.

[8] 2022 NACD Board Practices and Oversight Survey—ESG: Compare and Contrast Among Public and Private Companies, NACD, 2022.

[9] "Financial Institutions and Nonfinancial Risk: How Corporates Build Resilience," Bjorn Nilsson, Thomas Poppensieker, Sebastian Schneider, and Michael Thun, McKinsey, February 28, 2022.