



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

**MONDAY, SEPTEMBER 11, 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](http://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 Recording Secretary Jennifer Hy-Luk at [jhyluk@ieua.org](mailto:jhyluk@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 ITEM**

**A. MINUTES**

Approve Minutes of the July 10, 2023 Special Audit Committee meeting.

**2. INFORMATION ITEMS**

- A. 2023 REVIEW OF AGENCY'S PURCHASING CARD PROGRAM – FOOD, TRAINING AND TRAVEL PURCHASES (WRITTEN/POWERPOINT)
- B. 2023 PETTY CASH AUDIT AND FOLLOW-UP REVIEW (WRITTEN/POWERPOINT)
- C. PROGRESS UPDATE FOR ALL PROCURE TO PAY AUDIT RECOMMENDATIONS – SEVENTH UPDATE (WRITTEN/POWERPOINT)
- D. INTERNAL AUDIT QUARTERLY STATUS REPORT FOR SEPTEMBER 2023 (WRITTEN)

**3. AUDIT COMMITTEE ADVISOR COMMENTS**

**4. COMMITTEE MEMBER COMMENTS**

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

**ADJOURN**

---

**DECLARATION OF POSTING**

---

I, Jennifer Hy-Luk, 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](http://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) 993-1727 or [jhyluk@ieua.org](mailto:jhyluk@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\***

**MONDAY, JULY 10, 2023  
9:00 A.M.**

**COMMITTEE MEMBERS PRESENT**

Paul Hofer, Chair  
Steven J. Elie, Director

**STAFF PRESENT**

Kristine Day, Assistant General Manager  
Lisa Dye, Director of Human Resources  
Brandon Gonzalez Contreras, Technology Specialist I  
Randy Lee, Acting Director of Finance  
Sapna Nangia, Senior Internal Auditor  
Dominic Palencia, Internal Auditor  
Jeanina Romero, Executive Assistant  
Wilson To, Technology Specialist II  
Teresa Velarde, Manager of Internal Audit

**OTHERS PRESENT**

Travis Hickey, Financial Advisor

**STAFF PRESENT via Video/Teleconference**

Deborah Berry, Controller  
Jerry Burke, Director of Engineering  
Denise Garzaro, Board Secretary/Office Manager  
Don Hamlett, Director of Information Technology  
Michael Larios, Technology Specialist I  
Alex Lopez, Acting Treasurer  
Monica Nelson, Administrative Assistant II  
Alyson Piguee, Director of External and Government Affairs

**OTHERS PRESENT via Video/Teleconference**

Tiffany Fung, Clifton Larson Allen, LLP  
Nitin Patel, Clifton Larson Allen, LLP

Committee Chair Paul Hofer called the meeting to order at 9:08 a.m. He gave the public the opportunity to comment. There were no public comments received and no additions to the agenda.

**1A – 1B. ACTION ITEM**

The Committee:

- ◆ Approved the minutes of the March 15, 2023 Audit Committee meeting.
- ◆ Recommended that 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.

## **2A – 2F. INFORMATION ITEMS**

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

- ◆ Fiscal Year 2022/2023 Financial Audit Engagement Communications
- ◆ Large and Heavy-Duty Equipment and Vehicle Audit
- ◆ Follow-up Review of Recommendations Related to Agency Policies and Ethics Point, Board Resolutions, and Administrative Handbook
- ◆ Progress Update for all Procure to Pay Audit Recommendations – Sixth Update
- ◆ Report of Open Audit Recommendations as of June 2023
- ◆ Internal Audit Quarterly Status Report for June 2023

## **3. AUDIT COMMITTEE ADVISOR COMMENTS**

Financial Advisor Travis Hickey provided a comment related to the Association of Certified Fraud Examiners and the role of the external auditor and the internal auditors in detecting fraud and emphasized that internal audit is a very valuable tool in detecting fraud and commended the Audit Committee members for their support to the role of Internal Audit.

## **4. COMMITTEE MEMBER COMMENTS**

There were no Audit Committee Member comments.

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

There were no Committee member requested future agenda items.

## **ADJOURNMENT**

With no further business, Committee Chair Hofer adjourned the meeting 10:06 a.m.

Respectfully submitted,

Jeanina Romero  
Executive Assistant

\*A Municipal Water District

**APPROVED: SEPTEMBER 11, 2023**

**INFORMATION  
ITEM  
2A**

**Date:** September 20, 2023

**To:** The Honorable Board of Directors

**Committee:** Audit



**From:** Teresa Velarde, Manager of Internal Audit

09/11/23

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** 2023 Review of Agency's Purchasing Card Program - Food, Training, and Travel Purchases

---

**Executive Summary:**

Internal Audit (IA) completed an audit of the Agency's Purchasing Card (P-card) Program related to Food, Training and Travel. The objective of the audit was to evaluate the internal controls over the P-card program (specific to Food, Training, and Travel) and determine if the purchases are in accordance with the Agency's ordinances and policies, and to identify opportunities to improve the program. Lastly, to evaluate the implementation status of the 7 open audit recommendations from the 2018 Procurement Card audit. The audit noted there are over 240 cardholders and \$1.9 million or more is purchased on the P-cards. IA recommends to strengthen and tighten the internal controls, including: update & finalize the draft policy or update Agency Policy A-89, establish monitoring tools for limits, evaluate the process to receive a P-card (P-card Request form), reinforce guidelines on itemized receipts, provide guidelines related to gratuities, evaluate per diem guidelines, provide guidelines for expense account assignments. IA also recommends Agency Management develop & assign a Committee to: update guidelines related to meals, food, & catering purchases; review, evaluate, & update any guidelines & Agency's policies related to travel (Policy A-37) & rental cars (Policy A-17), & evaluate the purpose & intent of the corresponding approval & travel forms. 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

**Prior Board Action:**

On July 19, 2023, the Board of Directors approved the Fiscal Year 2023/24 Annual Audit Plan. The Purchasing Card audit was 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 2023 Review of the Agency's Purchasing Card Program – Food, Training and Travel Purchases 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 - Review of Agency's Purchasing Card Program - Food, Training, and Travel Purchases

Attachment 2 - PowerPoint

DATE: August 31, 2023

TO: Shivaji Deshmukh  
General Manager

FROM:   
Teresa V. Velarde  
Manager of Internal Audit

**SUBJECT: 2023 Review of Agency's Purchasing Card Program – Food, Training and Travel Purchases**

**Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) has performed an audit of the Purchasing Card (CAL-Card or P-card) program. The audit was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2023-2024 Annual Audit Plan and IA's Charter.

**Audit Objectives**

The objectives of the P-card audit were to assess and evaluate the internal controls over the Agency's P-card program and determine if the purchases are in accordance with established ordinances and policies (*Procurement Ordinance Number 110* and *Draft P-Card Pilot Program Policy* (August 2022)), and to identify opportunities to improve the program. Lastly, to evaluate the implementation status of the seven outstanding audit recommendations from the Procurement Card Audit of 2018.

The specific audit objectives were to:

- Determine if Agency policies and Standard Operating Procedures (SOPs) are established and followed
- Evaluate the processes for issuing P-cards
- Evaluate monitoring and oversight controls over purchasing transactions
- Analyze transactions to determine compliance with the Agency's policies and ordinance requirements
- Evaluate transactions and determine if documentation included supports the amount purchased, appropriately approved, and assigned to the correct accounts in the Agency's financial system (SAP)
- Evaluate the use of technology and reporting tools
- Identify opportunities for improvements

*Water Smart - Thinking in Terms of Tomorrow*

Marco Tule  
President

Steven J. Elle  
Vice President

Jasmin A. Hall  
Secretary/Treasurer

Michael Camacho  
Director

Paul Hofer  
Director

Shivaji Deshmukh  
General Manager

IA performs the P-card audit in multiple phases. For this P-card audit, the focus is on purchases for food, travel and training. IA plans to evaluate other areas, including fuel, Information Technology (IT) equipment and software/services, goods, materials and services. An audit report will be finalized after the completion for each area reviewed.

### **Audit Results – Executive Summary**

In 2005, the Agency established its P-card program. The purpose of the P-cards is to provide a method for the purchase of small dollar items, and non-restricted goods and services. The Agency's P-card program falls under the State of California's Purchase Card Program, which is registered under the name "CAL-Card".

The Agency's P-card program is currently administered by the P-card Administrator in the Contracts and Procurement (CAP) Unit within the Finance Department. The P-card works like a credit card and is issued to employees or an Agency department. According to CAP, the P-card is the only "credit card" program currently in effect at for Agency purchases, all previous credit card programs have been eliminated. As of August 7, 2023, there were 246 P-cards issued. Cardholders and their supervisors have the responsibility to ensure that all P-card purchases are for:

- legitimate Agency related business purposes only
- adhere to the Board-approved Procurement Ordinances and Agency policies
- follow the most appropriate procurement method
- ensure transactions are reconciled timely with the adequate supporting documentation and approvals

To ensure the Agency qualifies for the highest Prompt Payment incentive that is available, the Accounts Payable group pays the US Bank credit card bill as soon as it is received, with or without complete reconciliation of all transactions.

The audit identified opportunities to further strengthen internal controls to improve the overall effectiveness of the P-card program. Details of the observations and recommendations are included in the attached report. The bullet points below provide a summary of the audit results:

### **Internal Controls**

- **Single Transaction and/or Monthly Account Credit Limit:** Currently, there are no guidelines or monitoring controls to increase or reduce the single transaction limits or monthly account credit limits originally approved and established. If an employee requests an increase on their established limits, the request is coordinated between the P-card user and the P-card Administrator. There are no monitoring controls to ensure that limits are reduced to the original approval authority after the single use.

- **P-Card Request form:** Both the *P-Card Pilot Program Policy* and *Agency Policy A-89* require that the P-card Request Form be completed and approved by the employee's direct manager. IA noted that the recent issuances selected for review did not have a corresponding, approved P-card Request form. The process to receive a P-card should be evaluated and the policy be updated to ensure it matches the current or expected practice.
- **Finalize a formal P-card Policy:** The draft P-card policy was rolled out in August of 2022. Currently, there is no final, formal policy, only the draft policy. With over 240 P-card users, it is important to formalize guidelines and a policy. Even though, *Agency Policy A-89* is not the applicable policy over the P-card program, it is the only policy that is currently available and accessible to staff through the Agency's website. *A-89* states the P-card shall not be used for Agency travel or entertainment expenses, as these expenses fall under *Policy A-55*. Under the new expanded P-card program, P-cards are expected to be used for travel expenses; therefore, it may appear that our policies provide inaccurate or unclear information and guidelines. There is a need to update and finalize the draft policy and any updates should address observations and recommendations identified through this audit. The policy should be made available to all employees on the Agency's website.

### **Meal and Food Purchases**

- **Reinforce guidelines requiring itemized receipts:** *Agency Policy A-37* requires original receipts for meals and travel-related expenses, additionally the policy requires all receipts be attached to the Travel Expense Report. The draft *P-Card Pilot Program Policy* requires cardholders must obtain detailed receipts to reconcile to the card statement. The audit noted instances where itemized receipts were not provided, only a credit card receipt but no details related to the purchase. Guidelines should be developed and enforced, for instances where itemized receipts are not obtained or misplaced. This will ensure the user is making the best effort to justify the transaction meets guidelines.
- **Provide guidelines related to tips and gratuities:** Currently, there are no guidelines regarding the amount that should be provided as a tip or gratuity when either, dining at a restaurant, ordering food directly from a restaurant or ordering through catering or delivery service. IA observed the tips or gratuities ranged between 4% to 43% of the total purchase. Guidelines would assist in ensuring there is consistency across the Agency for the various situations and demonstrate that the Agency has a certain standard and expectation for these types of charges.
- **Per diem guidelines:** *Agency Policy A-37* establishes per diem guidelines for meals incurred during travel, the audit found P-card transactions that exceeded

the per person guidelines. The guidelines should be evaluated, updated if needed, and clearly communicated to staff.

- **Update travel and meal guidelines:** IA recommends management assign a committee to review and formalize guidelines related to meal, food and catering purchases for meetings, work projects, emergencies, training, and travel. Updates should be clearly communicated to all staff. Guidelines will establish consistency and demonstrate that the Agency has a certain standard and expectation for the various types of Agency expenses.

### **Travel Expenses**

- **Attendance and Expense Advance Request form:** IA reviewed various P-card transactions related to travel and training and observed the Attendance and Expense Advance Request form is not always included as part of the supporting documentation in the US Bank online tool. The purpose of the Attendance and Expense Advance Request form is to provide authorization to attend, approve overnight travel (if applicable), and request advance funds, if needed. The purpose of this form should be evaluated, revised as needed, and develop guidelines for when and how to submit with expenses to ensure it follows the Agency's policies and practices.
- **Travel Expense Report:** IA reviewed various P-card transactions related to travel and training. IA observed the Travel Expense Report is currently being used as an attachment to the Attendance and Expense Advance Request form to itemize and estimate expenses planned during travel because the Attendance Request form does not have a place to itemize anticipated expenses. According to the current policies, the purpose of the Travel Expense Report is for the employee to reconcile all the expenses within 14 days after the travel has concluded, and to request reimbursement. Both forms should be reviewed and revised as needed to ensure they are consistent with the Agency's guidelines.
- **Rental Cars:** IA reviewed P-card transactions related to rental cars, and observed, either: additional insurance was purchased, but it was unclear on the types of protection purchased; or there were insufficient details to determine if additional insurance was procured. Agency Policy A-17 states that additional liability insurance should not be purchased when renting vehicles, as it is covered under the Agency's general liability insurance policy. CAP staff stated that employees should purchase collision/physical damage coverage when renting a vehicle while traveling on behalf of the Agency. The policies are not clear on this guidance. Policies related to rental cars should be reviewed, updated as needed and clearly communicated to all employees.



### **Expense Account Coding**

- **Guidelines for Expense Account Assignments**: IA noted there were various P-card transactions that could have been coded to a more appropriate account in the Agency's financial system. Detailed guidelines should be provided on what type of transactions should be posted to what type of expense accounts. Developing guidelines will serve as a resource and ensure consistency in posting expenditures to the appropriate account code.

### **Open Recommendations**

- **Procure to Pay for Materials Supplies**: One recommendation was provided in the Accounts Payable Operational and Internal Controls Audit Report – Review of Procure to Pay Process for Materials and Supplies. This recommendation is restated in the new recommendations in this audit report.
- **2018 Procurement Card Audit**: Of the 7 outstanding recommendations from the prior Procurement Card Audit, 3 have been addressed and considered implemented, 2 are considered closed, and 2 recommendations have been restated in this current report.

### **Acknowledgements**

IA would like to extend our appreciation to staff who assisted us during this review, including staff from the Finance Department. The observations and recommendations in this report were shared August 24, 2023, and August 28, 2023, where possible the Department's comments and responses have been incorporated. IA looks forward to continued collaboration.

*The 2023 Review of the Agency's Purchasing Card Program – Food, Training and Travel Purchases 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.*

### **Background Information**

In 2018, IA performed a review of the Agency's Purchasing Card program. As a result of the review, IA provided seven recommendations to strengthen internal controls to improve the overall effectiveness and efficiency of the P-Card program. Listed below are the general themes of the recommendations that were provided:

- The need to update and clarify the Agency's Policy.
- Formalize the role of the P-Card Administrator.
- Adopt on-line tools to improve P-Card transaction approvals and reconciliations.
- Consolidate the various credit card programs to fully utilize the PCard program.

IA refers readers to the respective *Procurement Card Audit report (dated March 1, 2018)*, which was received and filed by the Board of Directors at the time of issuance, the report can also be accessed through the Agency's intranet website or requested from the Manager of Internal Audit.

### **Purchasing Cards – Purpose and Definition**

IEUA participates in the State of California's Purchase Card program (also known as CAL-Card, Purchasing Card or P-Card). This State's program is governed by a leveraged procurement agreement (California Participating Addendum 7-20-99-42, term ends December 31, 2025) with US Bank for commercial card services and offered to state and local governmental agencies (including special districts). The Agency's P-Card program is administered by the Acting CAP supervisor and Procurement Specialist I, who provides P-Cards to staff after completing their P-Card training and signing an agreement and addresses all issues that arise related to the P-Cards.

The State's Cal-Card program provides chip-enabled VISA cards that are issued in the name of the cardholder (employee's name or Agency department name) and is to be used for official (business-related) purchases only. The Agency is responsible for making all payments to US Bank. According to the Agency's draft P-Card Pilot Program Policy (August 2022), the purpose and definition are as follows:

*"P-card provides a fast, flexible new purchasing tool which offers an alternative to the existing purchasing processes and provides an extremely efficient and effective method for purchasing and paying for small dollar items."*

Additionally, the draft policy states:

*"The P-card will enable employees to purchase non-restricted goods and services directly from vendors online, by telephone, or in person, directly from vendors."*

The CAL-Card is not a procurement approach or acquisition method, it is mechanism or a form of payment. Cardholders are required to abide by the Agency's Procurement Ordinance, draft P-Card Pilot Program Policy (dated August 2022), and any other policies that protect the Agency.

Rebates (cash back/incentives) are provided to local agencies as participation in the State's Cal Card program, and the incentives are based on the volume of purchases and the timeliness of payment (see rebate amounts later in the report).

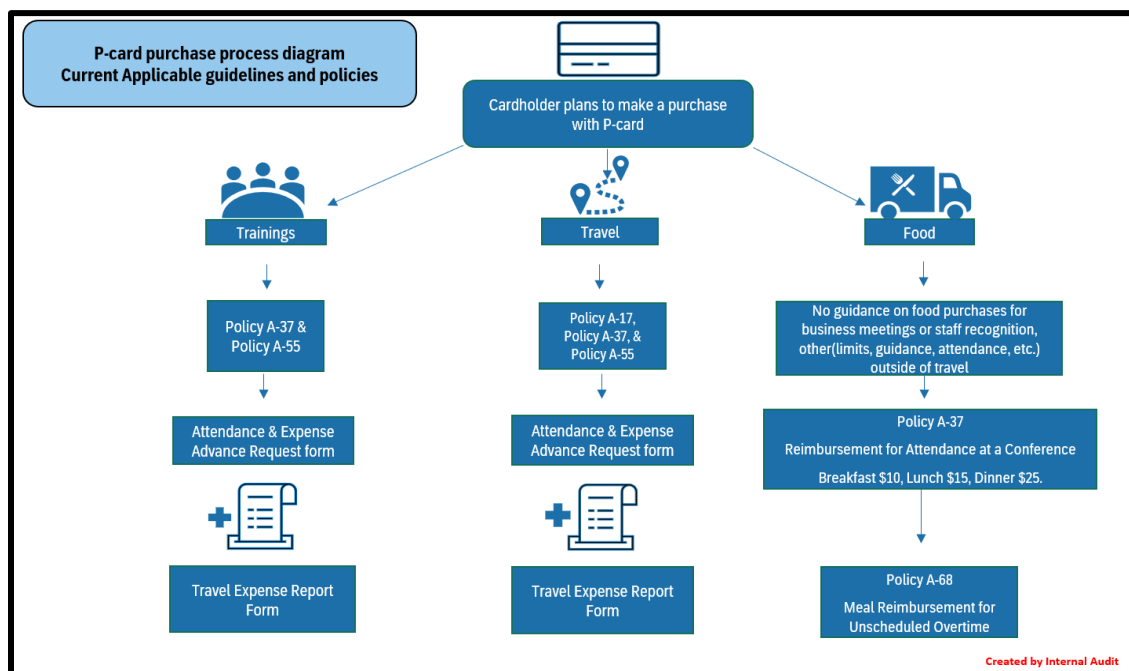
**Purchasing Cards - Agency policies, guidance and process diagram:**

In response to IA's 2018 audit recommendations, in the fall of 2022, the Agency expanded the P-card program and developed a P-card draft policy. As agreed to in preliminary meetings with management and staff, IA relies on the draft policy and all other Agency policies as criteria to evaluate the program for the purpose of this audit.

Type of Document	Number	Name/Title	Effective date/ Revision date
<b>Draft Policy</b>	<i>No Number assigned</i>	<i>P-CARD Pilot Program Policy</i>	<i>August 2022</i>
Agency Policy	A-89	Procurement Card Program	January 26, 2016
Agency Policy	A-86	Refueling Agency Vehicles	February 4, 2013
Agency Policy	A-68	Meal Reimbursement for Unscheduled Overtime	April 10, 2008
Agency Policy	A-55	Agency Credit Cards	May 25, 2015
Agency Policy	A-37	Reimbursement for Attendance at a Conference, Seminar or Meeting	July 24, 2015
Agency Policy	A-17	Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency	July 15, 2005
Department-SOP	CAP-0012	Procurement Cards	August 13, 2013

Source: Draft P-card Policy provided by the P-card Administrator; Agency Policies and Department SOP are found on the Agency's intranet.

Below is a pictorial diagram related to P-Card purchases to demonstrate the policies that apply to the various types of purchases evaluated during this audit:



### **Purchasing Card Spending**

For FY 2022-2023, charges to all employee issued P-cards totaled \$2,166,499. Both IEUA and Inland Empire Regional Composting Authority (IERCA) purchase various items on the P-Cards, for example, training, conference registration fees, travel (i.e. airfare, hotels, transportation services, meals), food, meals, restaurants, fuel, supplies and small equipment, and other. The table below shows the total P-Card spending split between IEUA and IERCA: (the information was downloaded from SAP, as of August 2023)

Entity	FY 2020/21	FY 2021/22	FY 2022/23
IEUA	\$ 204,344	\$ 320,288	\$ 1,901,573
IERCA	\$ 15,076	\$ 55,882	\$ 264,926
<b>Totals</b>	<b>\$ 219,420</b>	<b>\$ 376,170</b>	<b>\$ 2,166,499</b>

Source: Agency's financial system (SAP) and US Bank P-Card Statements

### **Statistical Information**

The table below shows the top vendors used during the previous 12-month period:

**IEUA and IERCA  
Top 10 Vendors by Dollar amount  
July 1, 2022 – June 30, 2023**

Vendor Name	Number of Transactions	Total Dollar amount
Microsoft	18	\$ 96,586
Downs Energy	12	74,619
McMaster-Carr	71	66,083
Grainger	120	60,776
Amazon	310	58,290
Royal Industrial Solutions	25	40,713
Hach Company	28	40,031
Verizon Wireless	5	33,328
Dell	19	26,750
Inland Empire Windustrial Co.	6	26,732
<b>Total</b>	<b>614</b>	<b>\$ 523,906</b>

Source: US Bank Access Online – Top Merchant Spend Analysis

### **Single Transaction Limit/Monthly Account Credit Limit**

As of August 7, 2023, there were 246 P-Cards issued to Agency employees (15 IERCA and 231 IEUA). Spending limits are established for each individual cardholder by the respective, supervisor, and vary between \$500 to \$25,000 for a single purchase and from \$1,500 to \$59,600 for the monthly limits. The table below shows a list of the number of cardholders with the respective limits authorized:

Number of Cardholders	Account Credit Limit	Single Purchase Limit
2	\$1,500	\$500
26	\$2,000	
1	\$20,000	
1	\$5,000	\$1,000
1	\$20,000	
1	\$5,000	\$1,500
2	\$5,000	\$2,000
2	\$10,000	\$2,500
1	\$15,000	\$3,400
164	\$10,000 *	\$5,000 *
1	\$12,530	
3	\$15,000	
1	\$25,000	
2	\$10,000	\$6,000
1	\$25,000	
1	\$15,000	\$6,500
1	\$15,000	
1	\$10,000	\$9,000
1	\$50,000	\$9,999
1	\$59,600	
1	\$10,000	\$10,000
2	\$15,000	
21	\$20,000	
1	\$30,000	
3	\$30,000	\$15,000
1	\$37,000	\$17,000
1	\$50,000*	\$20,000 *
1	\$25,000	\$25,000
1	\$50,000	
Total Number of Cardholders 246		

Source: US Bank Access® Online system, Account Spend Analysis report generated on August 7, 2023 in the US Bank Access® Online system

\*There are 4 department-assigned cards: 3 have a \$5,000 STL/\$10,000 Monthly limit and 1 has a \$20,000STL/\$50,000 Monthly limit.

Over 65% of the cardholders have a single transaction limit of \$5,000 and monthly credit limit of \$10,000, and the highest single purchase limit is **\$25,000** and the highest monthly limit is **\$59,600**.

## **Rebates**

As noted in the 2018 Procurement Card Audit, the CAL-Card program pays quarterly “cash back” rebates to agencies that participate in the program. The rebate amount is based on the activity for the three prior months. The types of rebates offered are:

Type of Rebate	Based on
<b>Standard Volume Incentive</b>	Total volume of sales or purchases <b>X</b> (multiplied by) the Incentive Rate of 1.35% <i>(Note: increase in the incentive, during the 2018 audit, the incentive was only 0.05%.)</i>
<b>Non-Standard Volume Incentive</b>	Total volume of large and merchant negotiated sales or purchases <b>X</b> (multiplied by) the Incentive Rate of 1.35% <i>(Note: this is new incentive of 0.60% from the prior audit. The Agency did not receive this incentive at the time of the prior audit.)</i>
<b>Prompt payment incentive</b>	Calculated and based on the date the payment is received by US Bank: Between 0 and 45 days. The sooner US Bank receives the payment the greater the rebate given. Incentive rates range from 0% to 44%.

The Agency takes advantage of all three rebates. US Bank issues a check for the rebate amount and is recorded to Miscellaneous Other Revenue in the Agency's financials. The table below shows the rebates from calendar year 2015 to the recent information for 2023:

	Cal Card Rebates Calendar Year								Only 2 Quarters
	2015	2016	2017	2018	2019	2020	2021	2022	2023*
<b>IEUA</b>	\$ 2,700	\$ 3,473	\$ 5,650	\$ 15,007	\$ 15,972	\$ 12,087	\$ 10,593	\$18,302	\$ 25,801*
<b>IERCA</b>	283	397	126	192	177	82	545	1,246	3,742*
<b>Total Rebates Received</b>	<b>\$ 2,983</b>	<b>\$ 3,870</b>	<b>\$ 5,766</b>	<b>\$ 15,199</b>	<b>\$ 16,150</b>	<b>\$ 12,170</b>	<b>\$ 11,138</b>	<b>\$ 19,548</b>	<b>\$ 29,543*</b>

Source: Agency's financial system (SAP) and State of California, Department of General Services, Procurement Division, Cal-Card Usage Report for Local, State Agencies, [CAL-Card Usage Report for Local, State Agencies](#).

\*Rebate amount reported is for quarter 1 (January to March 2023) and quarter 2 (April to June 2023) only.

The expansion of the program and timely payment of the bill have resulted in an increase of the rebate amount received. Both IEUA and IERCA received its **highest rebates** to-date for the two most recent quarters (2023 quarter 1 and 2), as shown below:

	IEUA	IERCA	Totals
Calendar Year 2022, Quarter 1 (January – March)	\$ 3,099	\$ 143	\$ 3,242
Calendar Year 2022, Quarter 2 (April – June)	\$ 3,561	\$ 295	\$ 3,855
Calendar Year 2022, Quarter 3 (July – September)	\$ 4,269	\$ 366	\$ 4,635
Calendar Year 2022, Quarter 4 (October – December)	\$ 7,373	\$ 443	\$ 7,816
<b>Calendar Year 2023, Quarter 1 (January – March)</b>	<b>\$ 12,861</b>	<b>\$ 1,944</b>	<b>\$ 14,805</b>
<b>Calendar Year 2023, Quarter 2 (April - June)</b>	<b>\$ 12,939</b>	<b>\$ 1,799</b>	<b>\$ 14,738</b>

Source: Agency's financial system (SAP) State of California, Department of General Services, Procurement Division, Cal-Card Usage Report for Local, State Agencies, [CAL-Card Usage Report for Local, State Agencies](#).

At its current rate, the rebate anticipated will be approximately \$56k for the calendar year.

### **US Bank payments**

The Agency is required to pay the full monthly balance (except for disputed items) within 45 calendar days from the bill date. The Agency's billing cycle ends on the 22<sup>nd</sup> of each calendar month, or the next business day. IEUA pays the monthly balance due upon receipt of the bill.

Payments are made even if transactions have not been fully reconciled or approved, internally within the Agency, in the US Bank Access® Online System. The table below shows statistical information related to the US Bank payments for the last two fiscal years:

Time period	IEUA			IERCA		
	Lowest number of days to pay US Bank	Highest number of days to pay US Bank	Average number of days to pay US Bank from the statement date	Lowest number of days to pay US Bank	Highest number of days to pay US Bank	Average number of days to pay US Bank from the statement date
FY 22/23	1	49	14	3	41	12
FY 21/22	9	43	22	13	71	31

\*Source: Agency's financial system (SAP) and US Bank P-Card statements.  
Number of days were calculated using the statement date and date paid by the Agency (per SAP).

In February 2023, Esker (Agency's new invoice recognition software) was implemented, which improved the tracking and visibility of the Agency's invoices. As a result, there has been improvement in the number of days to pay the US Bank statement. The table below shows the Agency's payment trend at the beginning and ending of the fiscal year:

IEUA				IERCA		
FY 2023	Statement date	Date paid by the Agency	Difference in the number of calendar days	Statement date	Date paid by the Agency	Difference in the number of calendar days
Beginning	July 22, 2022	August 16, 2022	25	July 22, 2022	September 1, 2022	41
	August 22, 2022	September 22, 2022	31	August 22, 2022	September 13, 2022	22
	September 22, 2022	October 13, 2022	21	September 22, 2022	October 18, 2022	26
	October 24, 2022	December 12, 2022	49	October 24, 2022	October 27, 2022	3
<b>After Esker Implementation</b>						
End	March 22, 2023	March 30, 2023	8	March 22, 2023	March 28, 2023	6
	April 24, 2023	April 27, 2023	3	April 24, 2023	May 2, 2023	8
	May 22, 2023	May 23, 2023	1	May 22, 2023	May 25, 2023	3
	June 22, 2023	June 27, 2023	5	June 22, 2023	June 27, 2023	5

\*Source: US Bank P-Card statements, Esker and Agency's financial system (SAP).

During FY 2022/23, the number of days to process and pay the US Bank P-card statement, went from **over approximately 20 days to less than 10 days**, and included more P-cardholders and transactions to process, review, approve, and upload supporting documentation into the system.

### Observations and Recommendations

From the US Bank Access® Online system, IA downloaded the P-card transactions for the 12-month period of July 1, 2022, to June 30, 2023. During this period, there were 4,000 or more transactions processed with a total spending of \$1.9 million. The table below shows the dollar range of the transactions:

<b>IEUA ONLY</b> <b>Breakdown of transactions by Amount Spent</b> July 1, 2022 – June 30, 2023		
Range of the Dollar amount of the P-Card transaction	Number of transactions	Total Dollar Amount
\$0 to \$2,499	4,416	\$1,131,001
\$2,500 to \$4,999	107	\$344,062
\$5,000 to \$10,000	39	\$288,635
\$10,001 or more	10	\$139,339
<b>Totals</b>	<b>4,302</b>	<b>\$1,903,037</b>

Source: US Bank Access® Online, Transaction Detail Report.  
Includes all P-card transactions, not just food, training and travel

### **Purpose of the 2023 Review of Agency's Purchasing Card Program**

The focus of this audit report was on evaluating food, travel, and training purchases paid for using the Agency P-cards. Specifically, this included the following:

- Food, meals, restaurants: Food and meals are purchased for trainings, meetings, and travel.
- Agency-related travel: Staff travel for Agency-related business, such as airfare, lodging, transportation, meals, etc.
- Conferences/Trainings: Staff attend conferences, seminars, meetings, workshops and training related to the employee's responsibilities.

Attendance at conferences, trainings, seminars and/or meetings can be local or require travel. Agency Policy A-37 (*Reimbursement for Attendance at a Conference, Seminar or Meeting, effective July 24, 2015*) establishes the guidelines for expenses related to reimbursements for attendance at a conference, seminar or meeting. General Manager approval is required for any event that requires overnight accommodations.

According to the Agency's current policies, two forms are required to be completed when attending any type of conference, seminar, or meeting: ***Attendance and Advance Request form*** and ***Travel Expense Report***. The ***Attendance and Advance Request form*** is required to be approved prior to expending any funds, while the ***Travel Expense Report*** is to be completed within 14 days of the conference, seminar and/or meeting.

### **Results of Audit Testing**

IA selected a sample of 100 P-card transactions for detailed evaluation (50 food, meals and/or restaurants type transactions and 50 transactions related to travel and training). The purpose of the audit testing was to:

- determine if the purchase was approved by a supervisor, manager or director,
- determine if adequate supporting documentation (i.e. receipts, forms, etc.) was included the US Bank Access® Online system,



- evaluate if the purchase was coded to the most appropriate general ledger account code (expense account), and
- determine if the purchase follows Agency's policies.

Results of IA's testing are summarized in the following Observations and Recommendations:

Observation/Finding	Recommendations	Impact/Effect of the Recommendation
<b>Recommendations for P-Card Administrator over the (CAL-Card) P-Card program:</b>		
<b>Internal Controls</b>		
<p><b><u>Single Limit and Monthly Transactional Limit</u></b></p> <p>The current P-Card Pilot Program Policy (August 2022) has no guidelines on when and for how long a cardholder's approved Single Transactional Limit (STL) or Monthly Account Credit limit can be increased. Additionally, there does not appear to be monitoring or oversight control to ensure increases are only for a "single" transaction and then reduced back to their approved limits.</p> <p>The audit found one instance, where the STL was increased from \$5,000 to \$6,000 to allow the cardholder to process payment for one invoice in March of 2023. As of August 16, 2023, the cardholder's Single Purchase/Transaction limit was still \$6,000, (per Account Spend Analysis report generated on August 7, 2023 from the US Bank Access® Online system). There is no monitoring control established for the Administrator to follow-through to ensure the STL is decreased to the originally approved amount after the approved higher limit transaction is processed, nor was there a newly approved transaction limit to keep at the \$6,000.</p>	<ol style="list-style-type: none"> <li>1. The P-card Administrator should take the lead to propose updates to the Agency's P-Card Policy with guidelines related to requesting increases/decreases to users' Single Transaction Limit or Monthly Account Limits and determine how these will be communicated, changed, and monitored to ensure the limits are kept at the authorized and approved amounts.</li> <li>2. The P-card Administrator should take the lead to develop a monitoring or oversight tool or internal control to ensure that Single Transaction Limits or Monthly Account Credit Limits that are increased beyond the original approved spending limits are decreased to their original limits in a timely manner or ensure there is proper approval for any new increases.</li> </ol>	<p>Having documented and clear guidelines will provide clarity for when and why the Single Transaction Limit(s) or the Account Credit limit (s) can be increased or decreased.</p> <p>Establishing a monitoring tool will ensure oversight of the spending parameters established.</p>
<p><b><u>P-Card Request form</u></b></p> <p>No P-card Request forms were provided for the 20 cardholders selected for review. The Draft P-Card Pilot Program Policy (August 2022), states: <i>"Applicant or Department Liaison must fill out the P-card request form and obtain all necessary signatures. Applicant's request for a P-card must be approved by the Director."</i></p> <p>The Request Form contains the approval authority for the cardholder to receive a P-card. According to management, the P-card program was expanded, and this step was intentionally not followed to expedite the expansion of the program. Management indicated that going forward, this step will be followed.</p>	<ol style="list-style-type: none"> <li>3. The P-card Administrator should take the lead to propose needed updates to facilitate the finalization of the P-card Policy and update the requirement for the P-Card Request form and ensure the practice matches the policy requirement.</li> </ol>	<p>Establishing the requirement for an approval prior to issuing an Agency P-card is a good internal control and ensures there is proper approval and limits granted to an employee before purchases are made using an Agency P-card.</p>

<p><b><u>P-Card Pilot Program Policy and Agency Policy A-89</u></b></p> <p>There is no formal, documented policy that governs the Agency's P-card program. The P-Card program is operating under the P-Card Pilot Program Policy (August 2022). As of the date of this report (August 2023), the policy continues to be in draft form and is only provided to staff when signing the P-card agreement. The draft Policy is not available on the Agency's intranet for employee reference and it does not reference other Agency policies that provide guidelines for purchases and expenses. Additionally, the original Agency Policy A-89 (Procurement Card Program, effective January 26, 2016) continues to be on the Agency's intranet, as a current Agency policy. It should be noted that Agency Policy A-89, Section 5 Procedure, 5.9 states <i>"The P-Card shall not be used for Agency travel or entertainment expenses. Such expenses shall be charged as provided for under Policy. No. A-55."</i> This may appear to be conflicting with the current practice and Draft Policy.</p> <p>Having multiple policies with different expectations may create confusion for employees.</p>	<p>4. Finance Department management should formalize the P-card policy for the Agency's P-Card program. Determine the need for Agency Policy A-89 (currently communicated through the Agency's intranet website) and or the Pilot Program Policy and make the necessary updates, address audit recommendations, consider the desired internal controls, address specific expenses such as food, training, travel, and others, emphasize the need for clear justification and supporting documentation and clarify guidelines and expectations of employees when using the P-cards. Ensure current business practices match the appropriate policy requirements.</p>	<p>Having a formalized policy over the P-card program provides guidelines and expectations for staff.</p>
<p align="center"><b>Food, Meals and Restaurant Purchases</b></p>		
<p><b><u>Agency Policy A-37: Per Diem Guidelines</u></b></p> <p>Four P-card transactions were for meal purchases during travel, and the amount per person exceeded the Per Diem guidelines set forth in Agency Policy A-37 and there was no information or details about the reasons. According to Agency Policy A-37, Section 5.3 Expenses, letter C, Number 5: <i>"Except as otherwise provided, the guidelines for meal reimbursements, including tax and tip, shall be a maximum of \$50 per day with suggested limits as follows: <b>breakfast \$10; lunch \$15; dinner \$25.</b>"</i> Transactions were incurred while staff were traveling to conferences and one staff member paid for all attendees using the P-card.</p> <p>In each of the cases below, the amount spent per person was <b>greater than the established guidelines in A-37:</b></p> <ul style="list-style-type: none"> <li>• <b>Exceeded Dinner Per Diem of \$25 per person and exceeded the daily Per Diem of \$55 per person:</b> Steak 44 - \$225.71 total for 2 employees = \$112.85 per person.</li> <li>• <b>Exceeded Lunch Per Diem of \$15 per person:</b> Rockfish Harbor Grill - \$135.35 total for 4 Agency employees = \$33.84 per person.</li> <li>• <b>Exceeded Dinner Per Diem of \$25 per person:</b> Hudson &amp; Nash Restaurant - \$299.72 total for 6 employees = \$49.95 per person.</li> </ul>	<p>5. Finance Department management should take the lead to evaluate and make the needed updates to Agency Policy A-37 guidelines related to travel, meals and per diem. Consider forming a committee to evaluate the Agency's policy and practices related to meal expenses and to provide clear guidelines, set sound internal controls that provide consistency in expenses related to travel, conferences, meals, gratuities and per diem that align with the Agency's expectation of employees.</p>	<p>Ensuring policies are current and address current travel requirements will ensure the Agency has sound internal controls and policies that guide and provide consistency to expenses related to travel, conferences, meals, per diem guidelines, that better align with the Agency's current policies and employee expectations.</p>

<ul style="list-style-type: none"> <li>• <b>Exceeded Dinner Per Diem of \$25 per person:</b> Osteria Panevino - \$153.40 total for 3 employees = \$51.13 per person.</li> </ul> <p>There is a need to review and update Agency Policy A-37 guidelines for per diem and communicate and reinforce expectations to all employees.</p>		
<p><b><u>Agency Policy A-37:</u></b> <b><u>"Attendance and Expense Advance Request"</u></b></p> <p>For the four (4) P-card transactions, related to per diem and meals, identified in the observation above, IA noted that 1 transaction did not have the Attendance and Expense Advance Request form attached in the US Bank Access Online System. The other 3 transactions had the form attached.</p> <p><b><u>Agency Policy A-37: Travel Expense Report</u></b></p> <p>See Observation Above. For the 4 P-card transactions identified in this observation, IA noted that none of the four transactions had a finalized and signed Travel Expense Report attached, only 1 of the 4 transactions had Travel Expense Report attached but it was not signed and appears to have been utilized to provide an estimate of the anticipated expenses. Additionally, there was no final and signed Travel Expense Report in the Agency's financial system, so it is unknown if these were completed after the training or conference.</p> <p>According to Agency Policy A-37, Section 5.3, Letter C, Number 8, <i>"Within fourteen (14) days following attendance, the employee shall submit the completed Attendance and Advance Request form and the Travel Expense (available on AIM)"</i>. The purpose of the Travel Expense form is to itemize and reconcile all the purchases incurred while on travel and to reimburse the employee for any amounts owed.</p>	<p>6. Finance Department management should evaluate, update, and enforce the requirements and guidelines for <b>Agency Policy A-37</b>, including evaluate and update as needed the purpose of the <b>Attendance and Expense Advance Request form</b> and the <b>Travel Expense Report</b>, specifically address the following:</p> <ul style="list-style-type: none"> <li>• <b>The Attendance and Expense Advance Request form</b> should be updated to ensure it contains the needed information to allow pre-approval of training and travel. Update the form to have employees submit an itemized list of planned expenses during their travel for pre-approval.</li> <li>• Currently, the policy requires the <b>Travel Expense Report</b> be completed after-the -fact. It appears the purpose of this report requires it be evaluated and updates should be made, specifically, determine if it needs to be submitted with the Attendance and Expense Advance Request form (prior to) or after the conference, seminar, or meeting and if the necessary signatures should be required. Currently, there appears to be confusion and inconsistency as to when and where to submit and upload into US Bank.</li> <li>• <b>Adequate Supporting documentation submission</b> Develop guidelines to have employees submit the forms in the US Bank Access® online system so there is consistency in the timing and method submitted (if with each individual travel transaction or with just a specific charge). Currently, there appears to be confusion and inconsistency as to what, when and where to submit and upload the information into US Bank Access® system.</li> </ul>	<p>Ensuring clear policies and forms are up-to-date will ensure the travel requirements are met and the Agency has sound internal controls and policies that guide and provide consistency to expenses related to travel, conferences, meals, per diem guidelines, that better align with the Agency's current policies and employee expectations.</p>

<p><b><u>Gratuities and Tips</u></b>  IA observed there are inconsistencies in the application of tips and gratuities on food and meal charges, they ranged from 4% to 43% of the total purchase. Currently, there are no guidelines on tips and gratuities for food and meal purchases, noted variances when all purchases were compared and the practice may appear random or inconsistent.</p> <p><b><u>Catering and Deliveries of Food</u></b>  Noted food purchases through Corporate Catering (i.e. Foodja, EZCater) or directly from a food place. There were 25 P-card transactions tested that were related to these types of purchases, the tip or gratuity was either a <b>set dollar amount (\$10, \$30, \$50)</b> or <b>percentage (i.e., 10%, 15%, or 20%)</b>. Staff that place the order determine the amount of tip and gratuity at the time of ordering, and it can be either, percentage or dollar amount, of the order. <i>Delivery</i> and <i>service fees</i> are assessed as part of these food orders as well.</p> <p><b><u>Restaurant Meals</u></b>  Noted 14 P-card transactions tested where the tip or gratuity was listed as a dollar amount (such as \$5, \$7, \$10, \$22, \$25, \$40, etc) and equates <b>4% to 43%</b> of the bill. Currently, there are no established guidelines on tips and gratuities while at restaurants, unless they are related to meals when traveling. Per Agency policy A-37, Section 5.3 Expenses, letter C, Number 5: "Except as otherwise provided, the guidelines for meal reimbursements, including tax and tip, shall be a maximum of \$50 per day with suggested limits as follows: breakfast \$10; lunch \$15; dinner \$25.</p> <p>Consideration may be given to what can be called "the new tipping culture" where there appears to be an expectation for a tip/gratuity on all types of purchase.</p>	<p>7. Finance Department management should take the lead in evaluating and communicating guidelines related to gratuities and tips on meals to provide principles and guidelines that ensure some level of consistency, fairness, and demonstrate amounts are justified. Guidelines should consider the various types of meal and food purchases, such food delivered by caterers or restaurants, meals at full-service, sit-down restaurants and meals at fast-food or semi-fast-food restaurants. Evaluate all options and provide general standards to create a consistent approach that will appear fair and justified. Consider forming a committee to evaluate the Agency's policy related to meal expenses to provide clear guidelines for what is necessary, reasonable, and justified, set sound internal controls that provide consistency in expenses to align with the Agency's expectations of employees.</p>	<p>Having formalized guidelines on tips and gratuities would assist in ensuring there is consistency across the Agency for the various situations and demonstrate that the Agency has a certain standard and expectation for these types of charges.</p> <p>Consider that the Agency's practices and goals have evolved; therefore, the policies should be updated to match updates.</p>
<p><b><u>Gratuities and Tips</u></b>  <b><u>Additional, above the restaurant-assessed gratuity</u></b>  IA observed there were 3 purchases, at restaurants or food ordered online, that already included gratuity, and the cardholder added an additional tip. In general, the tips and gratuities for the transactions reviewed ranged between 4% to 22%, however, noted one with a 43% gratuity, of the total bill. As noted in the recommendation above, the Agency may want to consider the following factors when providing guidelines for tips and gratuities is the type of restaurant and type of service. Consider that the percentage range or dollar amount of the tip should justify the level of gratuity and</p>	<p>Same recommendation above applies.</p>	<p>Having documented, formalized guidelines on tips and gratuities will establish the Agency's tone for tipping and gratuities. Additionally, the Agency's business practices and policies should be in unison or in sync with one another.</p>

<p>service received, so there does not appear to be an inconsistency in the application of the gratuity.</p> <p>Noted that for one transaction, the gratuity provided appears to be excessive and unreasonable:</p> <ul style="list-style-type: none"> <li>○ <b>43% gratuity was given and included an additional \$68 after the 18% restaurant-added gratuity:</b> <ul style="list-style-type: none"> <li>○ Wood Ranch Chino Hills (Restaurant)</li> <li>○ \$267.35 - food and beverage subtotal</li> <li>○ \$48.12 - 18% gratuity added by restaurant</li> <li>○ \$68 - Additional Tip added by the cardholder</li> <li>○ <b>\$116.12 - total gratuity and additional tip equals 43% of the food purchase amount.</b></li> </ul> </li> </ul> <p>Two transactions, an additional tip was added to the bill, by the cardholder and no justification was noted:</p> <ul style="list-style-type: none"> <li>○ <b>22.7% gratuity was given and included a \$3.26 additional tip after the restaurant-added gratuity:</b> <ul style="list-style-type: none"> <li>○ Good Clean Fun (Restaurant)</li> <li>○ \$119 – subtotal</li> <li>○ \$23.80 – 20% service charge added by restaurant</li> <li>○ \$3.26 - additional tip added by the cardholder</li> <li>○ <b>\$27.06 - total service charge and tip and equals 22.7% of the food purchase amount</b></li> </ul> </li> <li>○ <b>18% gratuity was given, included a \$20 additional gratuity after restaurant-added gratuity:</b> <ul style="list-style-type: none"> <li>○ Red Robin (online order)</li> <li>○ \$540.55 – subtotal</li> <li>○ \$25 - delivery fee</li> <li>○ \$76.59 – 14% gratuity added by the restaurant</li> <li>○ \$20.00 - additional gratuity added by the cardholder</li> <li>○ <b>\$96.59 total gratuity equals 18% of the food purchase amount.</b></li> </ul> </li> </ul>		
<p><b><u>Itemized Receipts</u></b></p> <p>Four (4) of the P-card transactions totaling \$320.65 <b><i>did not have an itemized receipt, only a credit card receipt was provided.</i></b> IA also observed the following:</p> <ul style="list-style-type: none"> <li>• 1 transaction incurred while the cardholder was on travel.</li> <li>• 3 transactions were related to business lunch meetings, and one transaction provided information in the Comments section on the items ordered and the menu copy.</li> </ul> <p>The purpose of including an itemize receipt is to ensure the purchase does not include any unallowable items and to demonstrate purchases were necessary and</p>	<p>8. Finance Department management and the P-card Administrator should take the lead to enforce and require complete itemized receipts be included with all charges and develop guidelines for missing receipts or when itemized receipts are not obtained. The guidelines should include the type of information that should be provided or the forms that need to be completed, for example: purpose and nature of the event, meeting, training, etc., the names of employees in attendance, if outside parties participated. These guidelines</p>	<p>Having documented and clear guidelines will provide clarity for receipts that are lost, missing or the itemized receipt was not obtained by the cardholder.</p>

<p>reasonable. For employees that misplace itemized receipts, they are required to complete the Purchasing Card Missing Receipt Memo (Version 01, June 29, 2023)</p> <p>The Pilot P-Card Policy (August 2022), under Department Liaison Responsibilities, it states "In the event a receipt is lost, the Department Liaison will ensure the proper steps are followed as outlined by the P-card Program Administrator.</p>	<p>should be clearly communicated and available to all P-card users.</p>	
<p><b><u>Emergency, Unscheduled or Scheduled Treatment Plant events</u></b></p> <p>IA noted 4 P-card transactions, where the comments section noted the food purchases were related to "emergency work":</p> <ul style="list-style-type: none"> <li>3 food purchases – Comments section noted "Dinner for staff working at RP-1 on an emergency basis for filters. This event had staff from Operations and Maintenance." Same 6 staff members were listed for this event in the comments section. Per the supporting documentation, delivery dates and times were: <ul style="list-style-type: none"> <li><b>April 4, 2023, 11:15am–11:30am</b> Jersey Mike's, \$185.51/10 place settings = \$18.55 per person</li> <li><b>April 5, 2023, 6:15pm-6:30pm</b> Papa John's \$292.46/20 place settings = \$14.62 per person</li> <li><b>April 6, 2023, 6:30pm-6:45pm</b> Jersey Mike's, \$ 273.35/16 place settings = \$17.08</li> </ul> </li> <li>1 food purchase – Comments section noted "lunch for staff involved in Tp1 Filter Maintenance shutdown on 4-07-2023 Friday", 11 staff members were listed. <ul style="list-style-type: none"> <li>April 7, 2023 (approximately 11:20am) <ul style="list-style-type: none"> <li>In N Out Burger \$116.47/11 staff = \$10.58 per person</li> </ul> </li> </ul> </li> </ul> <p>Agency Policy A-68 (Meal Reimbursement for Unscheduled Overtime) is applicable when an employee is required to work more than 3 hours of unscheduled overtime shall be eligible for reimbursement of meal expenses. Additionally, the maximum amount they can be reimbursed for is \$10 dollars.</p> <p>In the P-card transactions noted above, these were scheduled or emergency events, but there are no guidelines on the amount that can be spent per person and these situations required a group of employees versus an individual employee.</p>	<p>See Recommendation #7 above.</p>	<p>Having clear guidelines will provide clarity on the type of information that should be included in the US Bank Access Online, and determine for events, like these if food should be purchased on the P-card or follow another Agency policy.</p>



Travel and Training		
<p><b><u>Agency Policy A-37: Attendance and Expense Advance Request Form and Travel Expense Report</u></b></p> <p>IA selected 36 P-card transactions that were related to Travel, and could include airfare, hotel, transportation, etc. The following was noted:</p> <p><b><i>Attendance and Expense Advance Request Form</i></b></p> <p>12 of the 36 P-card transactions did not have an Attendance and Expense Advance Request form attached to the transaction selected for review in the US Bank Access® Online System. Some of these travel transactions included overnight stays; thus, it provides the appearance that approval was not obtained prior to travel.</p> <p>The purpose of the Attendance and Expense Advance Request Form is to:</p> <ol style="list-style-type: none"> <li>1) Obtain the <b>authorization to attend</b> the requested conference, seminar, or meeting, and</li> <li>2) Request, in advance, any funds that are anticipated to be needed while traveling for Agency-related business.</li> </ol> <p>With the use of P-cards to pay for travel-related expenses, the Agency may want to evaluate how often are employees requesting funds in advance of travel because that is one of the main intents of the Attendance and Expense Advance Request form.</p> <p><b><i>Travel Expense Report</i></b></p> <ul style="list-style-type: none"> <li>• 19 of the 36 P-card transactions did not contain a Travel and Expense Report.</li> <li>• 11 of the 36 P-card transactions did have attached a Travel Expense Report, however, the documentation was not signed.</li> </ul> <p>Per IA's observation, the Travel Expense Report appears to be utilized as a supplement to the Attendance and Expense Advance Request form to itemized "estimated/anticipated expenses". The Travel Expense Report is required to be completed within 14 days after attending a conference, seminar, or meeting, per Agency Policy A-37. The report is supposed to be a reconciliation of all the expenses incurred while traveling and identify any monies owed to the employee. The report is required to be signed by the employee that certifies that it is an accurate statement of expenses incurred on behalf of IEUA and approved by the Manager and General Manager (if</p>	<p>See Recommendation #6 above.</p>	<p>Having clear guidelines will provide clarity on how these forms should be utilized, completed and attached in the US Bank Access® Online system.</p>

<p>applicable). The report was meant to be completed "after the fact" not beforehand.</p> <p>Staff may not know or be aware of the purpose or intent of both forms, Travel Expense Report and Attendance and Expense Advance Request form, and how they should be utilized.</p>		
<p><b><u>Rental Cars</u></b></p> <p>IA reviewed 3 P-Card transactions related to rental cars, which were needed while traveling on the Agency's behalf. Per Agency Policy A-17, Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency, Section 2.00 Procedure, states: <i>B. All rental vehicles and equipment are covered under the Agency's general liability insurance policy. Liability Insurance is NOT to be purchased when renting vehicles or equipment. C. When renting any vehicle or piece of equipment with a replacement value greater than \$25,000, the employee renting said item SHALL purchase a collision damage waiver at the time of rental.</i></p> <p>The following was noted:</p> <ul style="list-style-type: none"> <li>• 1 car rental (\$575.21) included the purchase of loss damage waiver, personal accident insurance, personal effects protection, and additional liability insurance. This purchase was reviewed by CAP, there is not enough information to determine the levels of protection purchased.</li> <li>• 2 car rental transactions (\$527.02 and \$650.40), there was not enough detail to determine if additional insurance was purchased.</li> </ul> <p>Staff may not be aware of the requirements related to insurance when renting a vehicle while traveling for Agency-related business.</p> <p>According to Contracts and Procurement, Liability Insurance must not be purchased when renting vehicle or equipment, and staff should purchase "collision/physical damage coverage" for all rental vehicles when traveling.</p>	<p>9. Finance Department management should evaluate, and update Agency Policy A-17 (Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency) and other Agency policies related to the insurance coverage required for rental vehicles when traveling for Agency purposes. Ensure the rental car insurance policy provides clear guidelines and instructions and is communicated to all staff.</p>	<p>Having documented and clear guidelines will provide clarity on when employees should purchase additional rental car insurance and what type of insurance or coverage to purchase when obtaining a car rental. Additionally, requirements to purchase car rental insurance should be communicated to all staff.</p>
<p style="text-align: center;"><b><i>Recommendations for Accounting</i></b></p>		
<p><b><u>General Ledger Account Assignment</u></b></p> <p>The Finance Department has not provided any written guidelines on what type of expenses should be posted to the various expense accounts that are available for selection in the US Bank Access Online system. The Agency has numerous expenses, but not all accounts are</p>	<p>10. Finance Department management should provide criteria, guidelines and information related to what would be an appropriate general ledger account for different types of expenses to ensure there is clarity</p>	<p>Having clear guidelines will provide clarity on how expenses should be recorded and to which accounts the expense should be coded to in the</p>



<p>listed in the US Bank system. IA identified various P-card transactions, where a different the general ledger account could have been assigned, as follows:</p> <p><b>Food/Restaurants</b></p> <ul style="list-style-type: none"> <li>• \$5,712.43 and \$2,959.67 (Gourmet Gourmet Catering and Set the Bar) – assigned to GL account number 520950 (Professional Services – Training Consultant), more appropriate account could have been 511310 (Employee Recognition).</li> <li>• \$225.71 (Steak 44) - assigned to GL account number 511120 (Employee Training and Seminars - Dept Specific), more appropriate account could have been 511240 (Travel Costs – Meals) because this expense incurred while traveling.</li> <li>• \$661.50 (Fiesta Tacos) - assigned to GL account number 513010 (Meeting Expenses), more appropriate account could have been 511310 (Employee Recognition).</li> <li>• \$69.45 (Crumbl Cookies) - assigned to GL account number 513010 (Meeting Expenses), more appropriate account could have been 511310 (Employee Recognition).</li> <li>• \$42.05 (Traxx) - assigned to GL account number 511240 (Travel Costs - Meals), more appropriate account could have been 513010 (Meeting Expenses) or 513020 (conference expenses) because the expense was incurred while on local travel.</li> </ul> <p><b>Travel</b></p> <ul style="list-style-type: none"> <li>• 10 transactions were not coded to the correct expense based on the description outlined on the Travel Expense Report. For example, there was a rental car transaction that was coded to Travel Costs – Meals (511240), whereas a more appropriate account could have been Travel Costs – Transportation (511230).</li> </ul> <p>In July 2023, an email notification was circulated informing staff on how to code the costs related conferences versus training in the Agency's financial system. Overall, all expenses should be coded to one general ledger account, and the individual expenses should still be detailed on the Travel Expense Report.</p> <p>Staff may not be aware of all the various general ledger accounts that are available to code expenses, or they may</p>	<p>and consistency in the use of the account coding. Periodically communicate the guidelines to Agency employees and enforce the correct use to ensure financial statements are represented fairly.</p>	<p>Agency's financial records.</p>
--	---	------------------------------------

not know the steps to take if the account selected has insufficient budgetary funds, or when new guidance is communicated.																																																				
<p><b>Late Fees for IERCA</b></p> <p>In the last three fiscal years (2021 to 2023), IA observed there were two instances of late fees assessed and paid on the US Bank Statement for IERCA, they were:</p> <ul style="list-style-type: none"><li>• <b>\$22.20 (March 2022 Statement)</b></li></ul> <table><tr><th colspan="5">CORPORATE ACCOUNT ACTIVITY</th></tr><tr><td colspan="4">IERCA</td><td>TOTAL CORPORATE ACTIVITY</td></tr><tr><td colspan="4"></td><td>\$22.20</td></tr><tr><th>Post Date</th><th>Tran Date</th><th>Reference Number</th><th>Transaction Description</th><th>Amount</th></tr><tr><td>03-22</td><td>03-22</td><td></td><td>LATE PAYMENT CHARGE</td><td>22.20</td></tr></table> <ul style="list-style-type: none"><li>• <b>\$44.97 (August 2022 Statement)</b></li></ul> <table><tr><th colspan="5">CORPORATE ACCOUNT ACTIVITY</th></tr><tr><td colspan="4">IERCA</td><td>TOTAL CORPORATE ACTIVITY</td></tr><tr><td colspan="4"></td><td>\$44.97</td></tr><tr><th>Post Date</th><th>Tran Date</th><th>Reference Number</th><th>Transaction Description</th><th>Amount</th></tr><tr><td>08-22</td><td>08-22</td><td></td><td>LATE PAYMENT CHARGE</td><td>44.97</td></tr></table> <p>Total late payment charges assessed were \$67.17.</p> <p>Both instances were prior to the expansion of the P-Card program and implementation of the Agency's Invoice Recognition Software.</p>	CORPORATE ACCOUNT ACTIVITY					IERCA				TOTAL CORPORATE ACTIVITY					\$22.20	Post Date	Tran Date	Reference Number	Transaction Description	Amount	03-22	03-22		LATE PAYMENT CHARGE	22.20	CORPORATE ACCOUNT ACTIVITY					IERCA				TOTAL CORPORATE ACTIVITY					\$44.97	Post Date	Tran Date	Reference Number	Transaction Description	Amount	08-22	08-22		LATE PAYMENT CHARGE	44.97	<p>11. Finance Department management should take the lead to monitor payments to US Bank carefully and ensure the statement is paid on time to avoid any late charges.</p> <p>12. The P-Card Administrator should work with US Bank to determine if the late fees assessed can be refunded and credited back to the Agency.</p>	<p>Have a set method to ensure payments are made on time avoids any assessments of late fees or charges by the vendor.</p>
CORPORATE ACCOUNT ACTIVITY																																																				
IERCA				TOTAL CORPORATE ACTIVITY																																																
				\$22.20																																																
Post Date	Tran Date	Reference Number	Transaction Description	Amount																																																
03-22	03-22		LATE PAYMENT CHARGE	22.20																																																
CORPORATE ACCOUNT ACTIVITY																																																				
IERCA				TOTAL CORPORATE ACTIVITY																																																
				\$44.97																																																
Post Date	Tran Date	Reference Number	Transaction Description	Amount																																																
08-22	08-22		LATE PAYMENT CHARGE	44.97																																																

<p align="center"><b>Follow Up on Prior Audit Recommendations</b></p> <p align="center">These are the prior/outstanding recommendations provided in previous audit reports.</p>			
<p>In 2022, IA completed the Procure to Pay audits and provided the following recommendation related to the P-card Administrator: <b>AP Operational and Internal Controls Audit Report – Review of P2P for Materials and Supplies, dated December 2, 2022</b></p>			
	<p><b>2022 Recommendation # 1:</b> <i>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.</i></p>	<p><b>Status: Restated</b> This recommendation is being addressed through the implementation status of all recommendations provided through this audit report.</p>	<p><b>2022 P2P-M&amp;S #1 is closed</b></p>
<p>In 2018, IA completed the original audit of the P-Cards and provide seven recommendations: <b>Prior Recommendations from 2018 Procurement Card audit, dated March 1, 2018</b></p>			
	<p><b>2018 Recommendation #1:</b> <i>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</i></p>	<p><b>Status: Restated</b> The P-card program is currently operating under the P-Card Pilot Program Policy (August 2022), which is draft format. Since Agency Policy A-89 is not the current governing document over the P-card program, the recommendation above will be restated and incorporated into the recommendation above</p>	<p><b>2018 #1 is closed and restated as: 2023 Recommendation #4 above</b> <b>Status: Restated, see Recommendation #4 above</b></p>

	<i>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 needs in mind and ensuring adequate controls are maintained.</i>	related to updating or finalizing the P-Card policy.	
	<p><b><u>2018 Recommendation #2:</u></b></p> <p><i>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.</i></p>	<p><b>Status: Closed &amp; Restated</b></p> <p>As part of this audit, IA has been in discussion and communication with the P-card administrator, and based on our observation, the P-card administrator role has been expanded and responsibilities are outlined in the P-Card Pilot Program Policy (August 2022), which is in draft format. The P-card administrator fully utilizes the US Bank online tools; provides training and guidance to staff; generates ad-hoc reports, and addresses and resolves issues that arise. Recommendation is being closed because Agency Policy A-89 will either be eliminated or updated and incorporated with the draft policy. IA will close this recommendation and re-evaluate during a future audit.</p>	<p><b>2018 #2 is closed and restated as: Recommendation is restated and deferred to the implementation status of all the recommendations provided through this audit report.</b></p>
	<p><b><u>2018 Recommendation #3:</u></b></p> <p><i>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.</i></p>	<p><b>Status: to be reevaluated</b></p> <p>According to the CAP Unit, staff are working on developing an intranet site for the P-card program that will include training materials and documents related to the program. The Agency has several policies that interconnect with the P-Card program. CAP is planning to have a consultant review and update their own internal SOPs as well.</p>	<p><b>To Be Re-Evaluated in Future Audit CAP indicated that they are working to update all internal SOPs.</b></p>
	<p><b><u>2018 Recommendation #4:</u></b></p> <p><i>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.</i></p>	<p><b>Status: Implemented &amp; Closed</b></p> <p>As part of the expansion of the P-card program, the Agency is using the US Bank Access online system (web-based portal) to review, reconcile, and approve P-card transactions, along with upload of the documentation that supports the transaction. The intent of the recommendation has been met, it is considered implemented.</p>	<p><b>2018 #4 is implemented and closed.</b></p>
	<p><b><u>2018 Recommendation #5:</u></b></p> <p><i>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 cards or credit programs. At a minimum, the Agency should ensure all Credit Card programs are governed by an approved Agency policy.</i></p>	<p><b>Status: Restated</b></p> <p>According to the P-card Administrator, the P-Cards are the only credit cards in use at the Agency, all other credit card programs have been eliminated. However, the P-card program is currently governed by a policy in draft format and has <b>not been formally approved nor adopted</b>. Intent of the recommendation has not been met, IA will update the recommendation.</p>	<p><b>2018 #5 is restated as: 2023 Recommendation #4</b></p>

	<p><b><u>2018 Recommendation #6:</u></b>  <i>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.</i></p>	<p><b>Status: Implemented &amp; Closed</b>  The Agency's P-card program was expanded in the fall 2022. As part of this expansion, the US Bank online tools are now utilized to:</p> <ul style="list-style-type: none"> <li>- reconcile, approve, and upload the supporting documentation for P-card transactions</li> <li>- create ad-hoc reports as required</li> <li>- cardholders can create alerts and receive email notifications from US Bank</li> </ul> <p>Based on IA's review, efforts have taken to satisfy the intent of the recommendation.</p>	<p><b>2018 #6 is implemented and closed.</b></p>
	<p><b><u>2018 Recommendation #7:</u></b>  <i>FAD should evaluate ways for the Agency to increase and/or maximize any rebates received.</i></p>	<p><b>Status: Implemented</b>  In the fall of 2022, the P-card program was expanded, and all other credit programs were eliminated. Staff are only issued the CAL-Card for making Agency-related purchases, which has increased the "cash back rebates" received by the Agency. This is visible in the rebates received for the two most recent quarters, \$7,373 and \$12,861, Calendar Year 2022, Quarter 4 and Calendar Year Quarter 1, respectively. Efforts have taken to meet the intent of the recommendation.</p>	<p><b>2018 #7 is implemented and closed.</b></p>

**Management Response:**

*Agency Management and the CAP unit have indicated they are working on updating and finalizing the Draft P-card policy in addition to a P-card manual, training materials, other documents, and an intranet site for the P-card program. No timeline was provided as to when these will be finalized.*

**Conclusion**

Additional reviews will be scheduled through the Board-approved Annual Audit Plan. Please contact any member of the Internal Audit Unit for additional information.





# 2023 Review of Agency's Purchasing Card Program Food, Training, and Travel Purchases

Teresa Velarde  
Manager of Internal Audit  
September 11, 2023



# 2023 Purchasing Card (P-card) Audit

- Audit Objective and Scope
- Current areas reviewed: Food and meals, travel, and training
- Future areas of review:
  - Fuel & Follow up Review
  - IT equipment, software and services
  - Goods, materials and services
- Results of prior Open Audit Recommendations from 2018
  - 8 prior audit recommendations
    - 3 recommendations Implemented
    - 2 recommendations No Longer Applicable
    - 2 recommendations Restated

# Agency's P-card Program

- 246 P-cards have been issued as of August 2023
  - 2018 Audit Recommendations
  - P2P challenges
  - To make procurement more efficient
- Cardholders and their Approver's responsibilities:
  - Purchases are for Agency related business purposes only
  - Adhere to Board-approved ordinances and policies
  - Follow the most appropriate procurement method
  - Ensure transactions are reconciled timely with adequate supporting documentation and approvals
- Types of Purchases allowed
  - Small dollar items
  - Not to circumvent the Procurement Ordinance



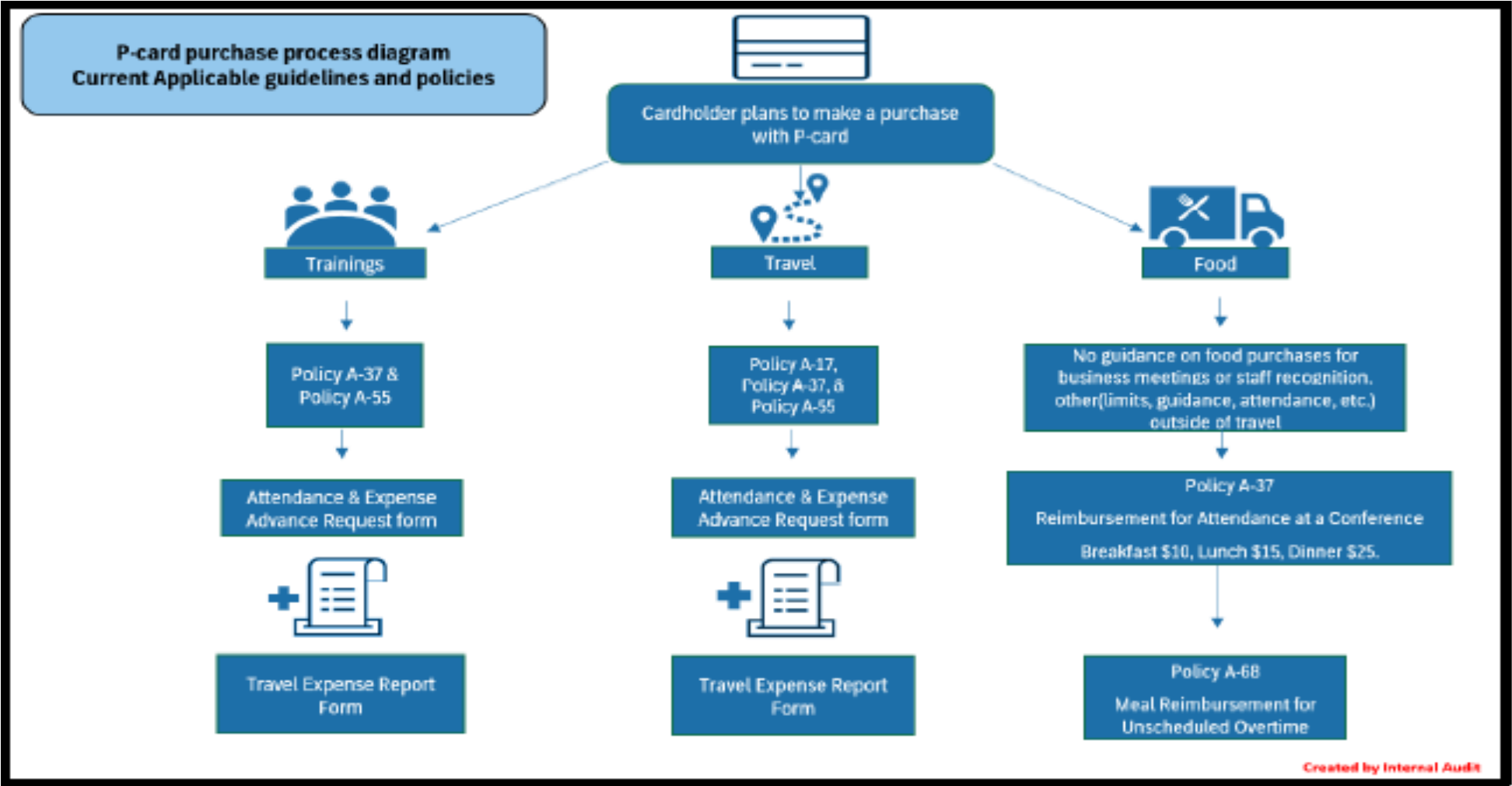
# Agency Policies

Type of Document	Number	Name/Title	Effective date/ Revision date
<i>Draft Policy</i>	<i>No Number assigned</i>	<i>P-CARD Pilot Program Policy</i>	<i>August 2022</i>
Agency Policy	A-89	Procurement Card Program	January 26, 2016
Agency Policy	A-86	Refueling Agency Vehicles	February 4, 2013
Agency Policy	A-68	Meal Reimbursement for Unscheduled Overtime	April 10, 2008
Agency Policy	A-55	Agency Credit Cards	May 25, 2015
Agency Policy	A-37	Reimbursement for Attendance at a Conference, Seminar or Meeting	July 24, 2015
Agency Policy	A-17	Use and Insurance Requirements for Vehicles and Equipment Rented by the Agency	July 15, 2005
Department-SOP	CAP-0012	Procurement Cards	August 13, 2013

Source: Draft P-card Policy provided by the P-card Administrator; Agency Policies and Department SOP are found on the Agency's intranet.



# P-Card Purchase Process with applicable Agency Policies



# P-card Spending

Entity	FY 2020/21	FY 2021/22	FY 2022/23
<b>IEUA</b>	\$ 204,344	\$ 320,288	\$ 1,901,573
<b>IERCA</b>	\$15,076	\$ 55,882	\$ 264,926
<b>Totals</b>	<b>\$ 219,420</b>	<b>\$ 376,170</b>	<b>\$ 2,166,499</b>

## Payments to US Bank



- In the last 2 fiscal years, decreased the number of days to pay US Bank
  - ***20 days to less than 10 days***
  - Approximately 18 P-cards in 2018 to currently 247 P-cards
  - therefore more transactions to process
- Esker Implemented (February 2023)
- US Bank online tools

P.O. BOX 6313  
FARGO ND 58126-6343

00000081 06 SP 1054018162883455  
TKT&ND SMPTR 1PT1,1PT1FS

ACCOUNT NUMBER \_\_\_\_\_  
STATEMENT DATE \_\_\_\_\_  
AMOUNT DUE \_\_\_\_\_  
NEW BALANCE \_\_\_\_\_  
PAYMENT DUE ON RECEIPT \_\_\_\_\_

\$ AMOUNT ENCLOSED

Please make check payable to U.S. Bank\*

U.S. BANK CORPORATE PAYMENT SYSTEMS  
P.O. BOX 790478  
ST. LOUIS, MO 63179-0478

Please tear payment coupon at perforation.

#### CORPORATE ACCOUNT SUMMARY

Previous Balance	Payments + Other Charges	Cash Advances +	Advance Fees +	Payment Charge	Credits	Payments	New Balance
_____	_____	_____	_____	_____	_____	_____	_____
Company Total	_____	\$0.00	\$0.00	\$0.00	_____	_____	_____

#### CORPORATE ACCOUNT ACTIVITY

Post Date	Tran Date	Reference Number	Transaction Description	Amount
_____	_____	_____	_____	_____

#### NEW ACTIVITY

CREDITS	PURCHASES	CASH ADV	TOTAL ACTIVITY	
\$0.00	\$10,858.55	\$0.00	\$10,858.55	
Post Date	Tran Date	Reference Number	Transaction Description	Amount
_____	_____	_____	_____	_____

#### CUSTOMER SERVICE CALL

800-344-5696

#### ACCOUNT NUMBER

#### ACCOUNT SUMMARY

STATEMENT DATE 08/22/23  
DISBURT AMOUNT .00

PREVIOUS BALANCE \_\_\_\_\_  
PURCHASES + OTHER CHARGES \_\_\_\_\_  
CASH ADVANCES \_\_\_\_\_  
CASH ADVANCE FEES \_\_\_\_\_  
LATE PAYMENT CHARGES \_\_\_\_\_  
CREDITS \_\_\_\_\_  
PAYMENTS \_\_\_\_\_

#### AMOUNT DUE

ACCOUNT BALANCE \_\_\_\_\_

#### SEND BILLING INQUIRIES TO:

U.S. Bank National Association

CIO U.S. Bancorp. Purchasing Card Program  
P.O. Box 6335  
Fargo, ND 58122-6335

Page 1 of 37

# Rebate Information

Type of Rebate	Based on
<b>Standard Volume Incentive</b>	Total volume of sales or purchases <b>X</b> (multiplied by) the Incentive Rate of 1.35% <i>(Note: <u>increase in the incentive</u>, during the 2018 audit, the incentive was only 0.05%.)</i>
<b>Non-Standard Volume Incentive</b>	Total volume of large and merchant negotiated sales or purchases <b>X</b> (multiplied by) the Incentive Rate of 1.35% <i>(Note: <u>this is new incentive</u> of 0.60% from the prior audit. The Agency did not receive this incentive at the time of the prior audit.)</i>
<b>Prompt payment incentive</b>	Calculated and based on the date the payment is received by US Bank: Between 0 and 45 days. The sooner US Bank receives the payment the greater the rebate given. Incentive rates range from 0% to 44%.

# Rebates/Cash Back to the Agency

Cal Card Rebates Calendar Year									Only 2 Quarters
	2015	2016	2017	2018	2019	2020	2021	2022	2023*
<b>IEUA</b>	\$2,700	\$3,473	\$5,650	\$15,007	\$15,972	\$12,087	\$10,593	\$18,302	<b>\$25,801*</b>
<b>IERCA</b>	\$283	\$397	\$126	\$192	\$177	\$82	\$545	\$1,246	<b>\$3,742*</b>
<b>Total Rebates Received</b>	\$2,983	\$3,870	\$5,766	\$15,199	\$16,150	\$12,170	\$11,138	\$19,548	<b>\$29,543*</b>

Source: Agency's financial system (SAP) State of California, Department of General Services, Procurement Division, Cal-Card Usage Report for Local, State Agencies

*\*Rebate amount reported is for quarter 1 (January to March 2023) and quarter 2 (April to June 2023) only.*

[CAL-Card Usage Report for Local, State Agencies](#)

# Rebates – Comparable Information

CAL-Card Rebate Amount Received		
	Calendar Year 2023 Quarter 1 <i>(January - March)</i>	Calendar Year 2023 Quarter 2 <i>(April – June)</i>
IEUA and IERCA	<b>\$14,805</b>	<b>\$14,738</b>
City of Ontario	<b>\$13,147</b>	<b>\$17,079</b>
Cucamonga Valley Water District	<b>\$3,261</b>	<b>\$3,956</b>
City of Chino	<b>\$2,554</b>	<b>\$3,543</b>
City of Montclair	<b>\$2,343</b>	<b>\$3,468</b>
City of Upland	<b>\$2,079</b>	<b>\$2,022</b>
City of Chino Hills	<b>\$776</b>	<b>\$1,020</b>
City of Fontana	<b>\$0</b>	<b>\$0</b>

# P-Card Transactional Data



- Audit Scope
  - IEUA only
  - July 1, 2022 – June 30, 2023
  - Over 4,000 transactions
  - \$1,903,037 spending on P-Cards
- Selected 100 transactions for Food, Travel and Training



# Observations related to Internal Controls

- Final Policy
  - Draft P-Card policy, Agency Policy A-89
- Documented and approved process to issue cards
  - P-Card request form
- Single Transaction and/or Monthly Credit Limit
  - Approved increases and changes





# Observations: Guidelines for Food, Meals and Restaurant Charges

- Catering, deliveries and restaurants
- “Additional” tips or gratuities
- Itemized receipts
- Emergency, Overtime and scheduled or unscheduled events
- Per Diem Guidelines

The image shows a digital tip calculator interface. At the top, there is a dark blue header with the word "Tip" in white. Below this, the text "Total Amount Before Tip" is displayed in a bold, dark blue font, followed by the value "\$13.75" in a regular dark blue font. Underneath, there are four light blue buttons arranged in a 2x2 grid. The top-left button shows "10%" and "\$1.38". The top-right button shows "15%" and "\$2.06". The bottom-left button shows "20%" and "\$2.75". The bottom-right button shows "25%" and "\$3.44". Below these buttons are two light gray buttons: "Custom Tip Amount" and "No Tip".

Tip Percentage	Tip Amount
10%	\$1.38
15%	\$2.06
20%	\$2.75
25%	\$3.44

# Observations: Travel & Training Policies, Forms and Guidelines

- Attendance and Expense Advance Request form
- Travel Expense Report
- Supporting Documentation
- Rental Cars
- Expense Account Coding (SAP)



 <p><b>Inland Empire Utilities Agency</b> A REGIONAL WATER DISTRICT</p>	<h2 style="margin: 0;">ATTENDANCE and EXPENSE ADVANCE REQUEST</h2>
--	--

**1). REQUEST IS HEREBY MADE TO ATTEND THE FOLLOWING CONFERENCE, SEMINAR or MEETING:**

NAME: \_\_\_\_\_

EMPLOYEE / COST CENTER: \_\_\_\_\_

CONFERENCE, SEMINAR or MEETING: \_\_\_\_\_

LOCATION: \_\_\_\_\_

DATE(S): \_\_\_\_\_

ACCOUNT CODING: \_\_\_\_\_

Estimated Expenses are anticipated to be: \$\_\_\_\_\_

**JUSTIFICATION FOR ATTENDANCE:**

---

EMPLOYEE SIGNATURE \_\_\_\_\_ DATE \_\_\_\_\_

---

**CONFERENCE, SEMINAR or MEETING APPROVALS:** Attendance must be approved in accordance with Agency Policy A-37. Authorization is hereby granted for attendance at the conference, seminar or meeting specified above.

UNIT MANAGER/ DIRECTOR \_\_\_\_\_ DATE \_\_\_\_\_

GENERAL MANAGER (if applicable) \_\_\_\_\_ DATE \_\_\_\_\_

---

**2). EXPENSE ADVANCE AMOUNT REQUESTED:** \$ \_\_\_\_\_

☐ Return Check To: \_\_\_\_\_ ☐ Mail Check

Location: \_\_\_\_\_ ☐ Hold Check

\_\_\_\_\_  
 Title: \_\_\_\_\_

**Instructions:** 1.) Complete this form for Attendance Approval, and/or an Advance Request. Submit to Department and Executive Manager for approval at least ten (14) days prior to the date of attendance. All overnight travel must be pre-approved by the General Manager.

**2.) Requests for Expense Advances must be approved and forwarded to the Accounting Department, Treasurer Accounts Payable, at least one (1) business day in advance of the event.**

EMPLOYER:		Employee No.:		Cost Center:		Functional Area:		Expense Report No.:		(Conference number, if 10001)	
Business Purpose:		WBS:		Starting Date:		Return Date:		Date:			
ACCT NO.	EXPENSES	REIM CREDIT CARD	COSTS PREPAID BY REIM CHECK	SUN	MON	TUE	WED	THUR	FRI	SAT	TOTAL
	TRANSPORTATION										
	SPEICITY Parking										
	TAXI/SHUTTLE/BUS FARE										
	LODGING										
	TELEPHONE										
	REGISTRATION -										
	MEALS										
	BREAKFAST										
	LUNCH										
	DINNER										
	WEEKEND REIMB.										
	MISC. (SPECIFY)										
	<b>TOTALS</b>										
NOTES/COMMENTS				LESS: PREPAID or CREDIT CHARGES							
				LESS: CASH ADVANCE RECEIVED							
				<b>AMOUNT DUE EMPLOYEE:</b>							
				<b>AMOUNT DUE - AGENCY/ETC:</b>							

Within fourteen (14) days of your conference / seminar / meeting, complete the above portion of this form (Part "B"), attach all applicable receipts, any card or unused transportation tickets, obtain Department / Division Manager/General Manager approval, and submit to Accounts Payable for processing. Meal Reimbursements are limited to \$10 per day. Reimbursement includes meals and breakfast \$10.00, Lunch \$15.00, Dinner \$25.00. Mileage reimbursement is the IRS approved rate. Under the column headed "Reim Credit Check/Prepaid By Check," list all other amounts charged by you directly to REIM, and/or payments made on your behalf. If money is to be refunded to REIM, submit your Expense Report and personal check, or cash, to the Petty Cash Custodian at HQ. If money is due to you, Accounts Payable will send you a check.

**I CERTIFY THAT THIS IS AN ACCURATE STATEMENT OF EXPENSES INCURRED ON BEHALF OF REIM.**

**CONFERENCE / SEMINAR / MEETING EXPENSE, AND REIMBURSEMENT APPROVAL:**

<b>Unit Manager/Director</b>	<b>Dated:</b>

<b>Employee Signature:</b>	<b>Dated:</b>

<b>General Manager (if applicable)</b>	<b>Dated:</b>

(REIM Form No. PAS2002-4)

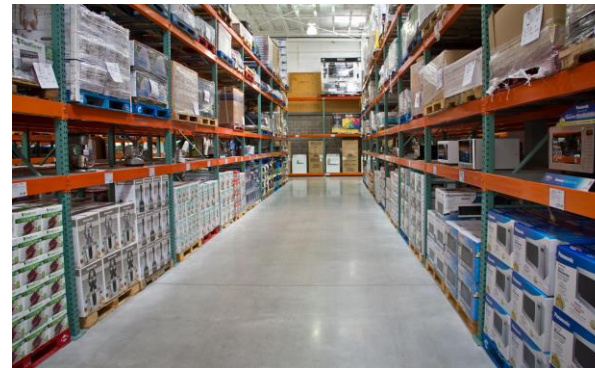
# Audit Observations & Recommendations

## 12 New Recommendations

Observations
Internal Controls
Food, Restaurants, & Meals
Travel & Training

# Planned P-card Audits:

- Fuel & Follow up Review
- IT equipment and software/services
- Goods, Materials & Services



*The 2023 Review of the Agency's Purchasing Card Program – Food, Training and Travel Purchases is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.*

**Questions?**

**INFORMATION  
ITEM  
2B**

**Date:** September 20, 2023

**To:** The Honorable Board of Directors

**Committee:** Audit



**From:** Teresa Velarde, Manager of Internal Audit

09/11/23

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** 2023 Petty Cash Audit & Follow-Up Review

---

**Executive Summary:**

Internal Audit (IA) performed an unannounced audit of the Agency's Board-approved Petty Cash funds. IA also completed a follow-up review of the 7 outstanding recommendations provided in the Petty Cash Audit Report dated June 5, 2017.

The purpose was to determine whether the petty cash funds were accounted for and to determine if the internal controls are in place and operating as intended. IA conducted cash counts of the petty cash at the 3 locations with a Petty Cash Box. IA determined that monies were accounted for and internal controls were adequate.

IA also evaluated the status of the 7 recommendations from the 2017 audit. This report provides 8 recommendations to improve controls and processes, including: properly closing the Petty Cash Fund assigned to Inland Empire Regional Composting Authority, replacement of the Petty Cash custodian at HQB, evaluate of overtime meal guidelines, updating and improving forms used, and the documentation of custody changes.

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

---

**Prior Board Action:**

On July 19, 2023, the Board of Directors approved the Fiscal Year 2023/24 Annual Audit Plan. The 2023 Petty Cash Audit & Follow-Up Review was 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 2023 Petty Cash Audit & Follow-Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.

---


**Attachments:**

Attachment 1 - 2023 Petty Cash Audit & Follow-Up Review  
Attachment 2 - PowerPoint



DATE: September 1, 2023

TO: Shivaji Deshmukh  
General Manager

FROM:   
Teresa V. Velarde  
Manager of Internal Audit

**SUBJECT: 2023 Petty Cash Audit & Follow-Up Review**

**Audit Authority**

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) has performed an audit of the Agency's Board approved Petty Cash funds. IA also completed a follow-up review of the seven outstanding recommendations provided in the Petty Cash Audit Report, dated June 5, 2017. The audit was performed under the authority given by the Board of Directors in the approved Fiscal Year (FY) 2023-2024 Annual Audit Plan and IA's Charter.

**Audit Objectives and Scope**

The purpose of this audit was to determine whether the Petty Cash funds were accounted for and to evaluate the internal controls in place. IA conducted cash counts at the three locations which maintain a Petty Cash box. The information below is a breakdown of the results. Results of the counts showed that the cash assigned to each fund is accounted for and internal controls are adequate.

Location	Amount	Overage/(Shortage)
HQA	\$1,250	\$0
HQB	\$400	\$0
RP-1	\$600	\$0

It was also noted that the Petty Cash custodian at Headquarters Building A (HQA) has custody of the Petty Cash box previously maintained by Inland Empire Regional Composting Authority (IERCA). In July 2022, IERCA management opted to return the Petty Cash box to the Finance Department at HQA. The Petty Cash box is no longer available for reimbursements at IERCA. IA conducted a count of the \$300 held in the IERCA Petty Cash box and noted all monies are accounted for.

### **Audit Results – Executive Summary**

The Petty Cash audit found that, overall, funds were accounted for, and expenditures appeared reasonable. IA also noted areas that require attention. The Finance Department oversees and administers the Agency's Petty Cash funds. Each assigned custodian has the responsibility to safeguard, control, and reconcile their assigned funds.

The previous Petty Cash Audit was completed in 2017. Of the seven outstanding recommendations from the 2017 audit, IA found that two recommendations have been implemented, one recommendation is no longer applicable, two recommendations were reassigned to the Human Resources Department as part of the 2023 Follow-Up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook, dated June 1, 2023. Finally, two recommendations have not been implemented and are restated in this report. Based on the results of this audit, IA provides nine new recommendations to improve internal controls. The attached report provides details of the recommendations, below is a summary:

- **Closure of Petty Cash fund assigned to IERCA:** IERCA staff stated they opted out of having a Petty Cash box, as of July 2022. The IERCA Petty Cash box was turned into the custodian in Finance at HQA and is maintained in the vault.
- **Replacement of the Petty Cash custodian at HQB:** In July 2023, the custodian at HQB left the role of custodian and there has not been a replacement assigned.
- **Overtime meal guidelines:** According to Agency Policy A-68, employees are limited to \$10 for reimbursements of overtime meals. The policy has not been updated since 2008 and should be reevaluated. Currently, overtime meals charged to the P-card do not follow the current policy, making its application inconsistent.
- **Forms and adequate documentation:** Additional reinforcement is needed regarding the required forms and needed documentation. Custodians should only accept complete forms along with the complete supporting documentation.
- **There is a need to improve and enhance the forms currently used:** IA noted that the Petty Cash reimbursement form and the Mileage Request form should be reevaluated and improved to expedite the reimbursement process, maintain adequate documentation and meet the Agency's current processes.
- **Documentation of custody changes:** IA noted that there have not been any documented lock or box changes for the Petty Cash boxes. Additionally, it appears that the role of custodian has changed several times since 2017 and there are no records of Petty Cash custody changes.

### **Acknowledgements**

IA would like to extend our appreciation to the Petty Cash custodians and the Finance Department for their cooperation and assistance during our Petty Cash Audit.

### **Background Information**

Agency Policy A-02 (*Petty Cash*, effective December 18, 2014) provides guidelines for the appropriate establishment, use, and accountability of Petty Cash funds established by Agency Resolution No. 2000-11-2, in the amount of \$2,250 and set a \$50 maximum amount for an authorized cash advancement or expenditure reimbursement.

The policy states that Petty Cash funds are to be expended only for legitimate purposes, such as making small, inexpensive, or emergency purchases. Additionally, the Petty Cash funds are not to circumvent the Agency's approved Procurement Ordinance, Vehicle Maintenance, Travel, Meal Reimbursement, Mileage Reimbursement, or Credit Card policies or other Agency Policies.

The Petty Cash is allocated among three funds at three different locations: Headquarters A (HQA) has an assigned amount of \$1,250, Headquarters B (HQB) has \$400, and Recycling Plant #1 (RP-1) has \$600, totaling \$2,250.

As noted above, IERCA had a fund of \$300. In July 2022, IERCA management opted out of maintaining a Petty Cash fund and returned it back to the Finance Department at HQA. Finance maintains the box and cash in the vault at HQA.

For employees to receive reimbursement through Petty Cash, the process is as follows:

1. Staff purchase Agency-related items with their personal funds.
2. Staff complete the *Petty Cash Reimbursement/Advancement* form (Rev. 12/18/2014), which is located on the Agency's intranet.
3. Staff must obtain a documented department manager approval signature on the request form.
4. Staff take the approved form to the Petty Cash custodian.
5. The Petty Cash custodian reviews the form and supporting documentation, issues the cash, and the custodian and requestor must sign the form, to acknowledge cash exchange.

All disbursements of Petty Cash must be supported by the original invoices or other supporting documentation that clearly states the purpose of the expenditure, the appropriate accounting code structure, and must contain the supervisor signature.

There has been a decrease in the number of reimbursements made with Petty Cash from 2018 to the present. Additionally, due to the COVID-19 pandemic, reimbursements had to be requested via check and submitted to the Finance Department. Despite the pause in the use of Petty Cash funds, overall, it appears the number of transactions were already decreasing before the pandemic took effect. Additionally, the recent expansion of the Agency's Purchasing Card (P-card) Program has facilitated the purchase of small-dollar, or emergency type purchases to be procured using the P-cards.

### Results of the 2023 Petty Cash Audit

In July 2023, IA conducted a physical count of the Petty Cash funds at the various Agency locations and noted no overage or shortage amounts for any of the boxes. Additionally, during the counts, IA reviewed the following:

- Verified that internal controls over cash handling processes were in place.
- Ensured cash was locked and kept in a secure location, and only authorized custodians had access to the cash.
- Reviewed Agency policies and procedures related to expenditures.
- Discussed processes and procedures with Petty Cash custodians.

The table below summarizes the number of transactions and dollar amounts reimbursed from all Petty Cash boxes, from Fiscal Year 2019 to July 2023.

IEUA and IERCA Petty Cash Information		
Fiscal Year	Total Number of Transactions	Total Amount Reimbursed
2023	115	\$ 3,232
2022	0*	0*
2021	0*	0*
2020	209	5,001
2019	406	\$9,729

\*No petty cash transactions conducted due to the COVID-19 pandemic

\*\*Source: Agency's financial system (SAP)

The table below breaks down the transactions and the amounts for each fund for FY 2023:

Location	Amount	Number of Transactions
HQA	\$178.56	8
HQB	836.81	34
RP-1	2,216.95	73
<b>Total</b>	<b>\$3,232.32</b>	<b>115</b>

\*IERCF opted out of maintaining a petty cash box in 2022

\*\*Source: Agency's financial system (SAP)

IA reviewed the Petty Cash transactions for the 12-month period from July 1, 2022, through July 24, 2023, noting that over \$3,000 of Petty Cash was paid out for employee reimbursements. The expenses were coded to the following:

Budget Account Code	Budget Account Title	Amount
511220	Travel Costs – Mileage Reimbursement	\$ 2,214.48
513010	Meeting Expenses	600.32
512110	Operating Supplies	147.59
511210	Overtime Meal Expenses	100.00
512170	Maintenance Supplies	86.90
512010	Office Supplies	51.65
511240	Meals-Travel	31.38
<b>Total Petty Cash Expenditures</b>		<b>\$ 3,232.32</b>

\*\*Source: Agency's financial system (SAP)

### **Incomplete Forms**

IA reviewed all 115 reimbursement transactions for the audit period July 1, 2022, through July 24, 2023, and tested for the following:

- Transactions were below the \$50 spending limit.
- Appeared to be as reasonable business expenses and properly approved.
- Petty Cash request forms were signed and completed correctly.
- General ledger account coding utilized was proper and reasonable.

During IA's detailed review of the transactions, noted the following:

- Of the 115 transactions, 13 or about 11% of all transactions tested, did not have the proper form completed or the form was not completed properly. For the 13 items, IA noted the following:
  - 7 items did not have the supervisor's signature, as evidence of approval for the reimbursement.
  - 4 items did not have the Petty Cash reimbursement form completed but had a Mileage Reimbursement form completed, as the documented request for the Petty Cash reimbursement instead of having the appropriate Petty Cash reimbursement form.
  - 1 did not have the proper documentation uploaded into SAP, as supporting justification for the item purchased.
  - 1 did not have the Petty Cash custodian signature, as evidence of cash issued.
- Additionally, for 1 of the 115 transactions, a more appropriate accounting code could have been used, as noted below:

Date	Description	Amount	Actual Account Coding	Appropriate Account Coding
February 2023	Parking – SCWC Luncheon Meeting	\$10	513010 PC Meeting Expenses	511290 PC Parking Permit/Tolls

### **Agency Policy A-68 and Overtime Meals**

According to Agency Policy A-68, the maximum amount that shall be reimbursed for overtime meals, including tax and gratuity, shall be limited to ten dollars (\$10.00). IA reviewed all Petty Cash transactions related to overtime meal reimbursements. For FY 2022/23, there were 10 transactions related to overtime meals. IA noted that the dollar amount spent on each individual transaction was greater than the \$10 limit set forth in Policy A-68. This means that the employees were not fully reimbursed for the total amount spent on overtime meals. The table below shows the overtime meals that were reimbursed via Petty Cash:

Petty Cash Transactions for Overtime Meal Reimbursements Difference between amount Reimbursed Versus Spent					
Date	Location	Description	Amount Reimbursed to Employee	Amount Spent by Employee	Variance between amount reimbursed and amount spent
January 2023	HQB	Reim OT Meal 1/6 RP-2 Call Out 3438352	\$10.00	\$15.07	\$(5.07)
August 2022	RP-1	OT Meal 7/24	\$10.00	\$12.58	\$(2.58)
August 2022	RP-1	OT Meal 7/22	\$10.00	\$13.59	\$(3.59)
August 2022	RP-1	OT Meal 7/18	\$10.00	\$13.37	\$(3.37)
August 2022	RP-1	OT Meal 7/15	\$10.00	\$10.58	\$(0.58)
August 2022	RP-1	OT Meal 6/23	\$10.00	\$10.78	\$(0.78)
August 2022	RP-1	OT Meal 6/22	\$10.00	\$10.55	\$(0.55)
August 2022	RP-1	OT Meal 8/26 WO 3424896	\$10.00	\$16.30	\$(6.30)
January 2023	RP-1	Meal Allowance WO 3438302	\$10.00	\$18.91	\$(8.91)
February 2023	RP-1	OT Meal Reimbursement for call out on 1/16/23	\$10.00	\$17.51	\$(7.51)
<b>Totals</b>				<b>\$139.24</b>	<b>\$(39.24)</b>
<b>Average Per Person based on actual spent</b>				<b>\$13.94</b>	<b>\$3.92</b>

**\*\* Source:** Agency's financial system (SAP)

Additionally, IA pulled examples of overtime meals charges made using the P-card and noted that in all the instances reviewed, all charges exceeded the \$10 limit set by A-68. Using the P-card may appear to circumvent the policy limit. According to Agency management, this policy has been previously discussed and there was an approval to increase the meal limit; however, the change has not been made on the Agency's documented policy and the information has not been communicated to staff; therefore, currently, the practice and policy are inconsistent and unclear.

### **Observations and Recommendations**

The table that follows provides a list of internal audit observations and recommendations.

<b><i>Recommendations for Accounting</i></b>		
<b><i>Observations</i></b>	<b><i>Recommendations</i></b>	<b><i>Impact/Effect of the Recommendation</i></b>
<p><b><u>Closure of IERCA Petty Cash fund</u></b></p> <p>IERCA had a Petty Cash box assigned with a total dollar amount of \$300. IERCA stated that they opted out of keeping a cash box in July 2022 and the cash was turned into the main custodian at HQA.</p> <p>According to Agency Policy A-02, section 5.12, Closure of a Petty Cash account, <i>“the full amount of the petty cash account must be deposited with the petty cash custodian at Agency headquarters along with a completed reconciliation and request to close the petty cash account for the specified location.”</i></p>	<ol style="list-style-type: none"> <li>1. The Finance Department should take the lead to properly close out the IERCA Petty Cash box as instructed under Agency Policy A-02 and ensure the cash from the box is properly deposited into the correct bank account.</li> <li>2. The Finance Department should take the lead to ensure the IERCA Petty Cash fund is properly closed in SAP with the recording of the appropriate journal entry.</li> </ol>	<p>There is a risk to having cash readily available that is not being used.</p>
<p><b><u>Replacement of a Petty Cash custodian at HQB</u></b></p> <p>According to Agency Policy A-02, the Chief Financial Officer/Assistant General Manager authorizes the Manager of Finance and Accounting to appoint the Petty Cash custodians.</p> <p>The Agency has one primary custodian and two sub-custodians assigned at HQA, HQB and RP-1, respectively. During our review, one of the sub-custodians moved to a new role and had not been replaced.</p> <p>HQB accounted for 35 (30%) of the 115 Petty Cash transactions in FY 2023. Having an assigned, trained Petty Cash custodian ensures staff are able to obtain reimbursements for Agency-related purchases.</p>	<ol style="list-style-type: none"> <li>3. The Finance Department should take the lead to assign a Petty Cash custodian for HQB and provide adequate training to ensure that there is an available custodian for employees seeking reimbursement.</li> </ol>	<p>Having no assigned or trained custodian at HQB could delay Petty Cash reimbursements needed by employees.</p>
<p><b><u>Documentation of Custody Changes</u></b></p> <p>The “locks” and “keys” of the Petty Cash boxes have not been changed during the last 15 years. According to Agency Policy A-02, the custodian is responsible for the Petty Cash, therefore, all cash and vouchers must be held in a locked cash safe with limited key access to the custodian. Due to staffing changes and turnover, the assignment of the Petty Cash custodian has changed frequently over the last few years. However, there are no records of when the last time the keys or locks were changed.</p>	<ol style="list-style-type: none"> <li>4. The Finance Department should take the lead in evaluating the costs and benefits of periodically changing the keys and locks of the Petty Cash boxes.</li> <li>5. The Finance Department should take the lead in establishing a process to record when locks and keys are changed or when there are custodian changes to</li> </ol>	<p>Keeping track of custody changes for Petty Cash is important to maintain accountability and prevent any potential misuse or theft of funds. It helps ensure that the assigned person is responsible for the cash at all times.</p>



<p>Additionally, the custodian at HQB has recently left the role, which is an opportunity to consider changing the keys and locks. Best practice would be to periodically change and/or update the Petty Cash locked boxes and at minimum document custody changes to ensure there is a clear record.</p>	<p>document the chain of custody of the Petty Cash fund or changes.</p>	
<p><b><u>Agency Policy A-68 &amp; Overtime Meals</u></b></p> <p>IA identified 10 transactions related to overtime meals and noted the dollar amount spent on each of the 10 meals were all greater than the \$10 limit provided in Agency policy A-68. In each case, employees were only reimbursed \$10. In the table above, <b>Petty Cash Transactions for Overtime Meal Reimbursements</b> shows the overtime meals that were reimbursed with Petty Cash according to A-68. IA evaluated the details of the purchases and recommends A-68 be reviewed since it was last revised in 2008.</p> <p>It was discussed with management that A-68 has already been reviewed and approval to increase the limit was provided, however, the policy has not been updated and staff were not notified of any changes.</p> <p>As additional audit procedures, IA analyzed a sample of P-Card charges for overtime meals and noted that each of the reviewed exceeded the \$10 limit set by A-68. Using the P-card provides another avenue to obtain meals while on overtime, emergency and or/scheduled events.</p>	<p>6. The Finance Department should take the lead to work closely with Agency Leadership and HR to evaluate Agency Policy A-68 and the \$10 maximum set for overtime meals and determine if updates should be made. Ensure updates are communicated to all staff.</p>	<p>Updating Agency Policy, A-68, would allow employees who are working overtime to be fully reimbursed when purchasing overtime meals.</p>
<p><b><i>Prior Recommendations from 2017 Petty Cash Audit and Follow-up Review</i></b></p> <p>In 2017, IA completed a Petty Cash Audit and follow-up review and provided the following recommendations that have yet to be implemented. For this follow-up, recommendations #2 and #4 originally provided are being restated.</p>		
<p><b><i>2017 Recommendation and Observation</i></b></p>	<p><b><i>2023 Recommendation (restated)</i></b></p>	<p><b><i>Impact of Recommendation</i></b></p>
<p><b><u>2017 Recommendation #2 Status:</u></b></p> <p><b>Status: NOT IMPLEMENTED</b></p> <p><i>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.</i></p> <p>IA discussed the reimbursements related to the Monthly Mileage with the Petty Cash custodians. It was noted that the current forms are not easy and convenient for both, especially for those who are</p>	<p>7. The Finance Department should take the lead to coordinate with the IT team or other Agency departments to review and update the Mileage Form for employees to be able to select options for ACH, Petty Cash reimbursement or a check reimbursement. Additionally, to evaluate if the form can be made an electronic form that</p>	<p>Updating the form would allow employees flexibility to request various reimbursement options and may be more efficient and consistent with newer Agency software and technologies available.</p>



<p>seeking ACH or a Petty Cash reimbursement. When employees seek mileage reimbursement with Petty Cash, employees are required to obtain supervisor approval signatures on both forms.</p>	<p>goes through workflow for proper approval to improve the time it takes to obtain approvals and reimbursements.</p>	
<p><b><u>2017 Recommendation #4 Status:</u></b>  <b>NOT IMPLEMENTED -</b>  <i>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.</i></p> <p>IA conducted testing on the Petty Cash transactions for FY 2022 and FY 2023. IA tested all 115 transactions from HQA, HQB, and RP-1. IA tested to ensure that all Petty Cash reimbursement forms were completed, signed, and filled out correctly, and had appropriate supporting documentation.</p> <p>IA noted the following:</p> <p>1) Of the 115 transactions, 13 or about 11%, did not have the form completed or completed properly. In breaking this down further, 7 of the 13 items did not have the supervisors' signature, 1 of the 13 items did not have the custodian signature, and 6 of the 13 items did not have the Petty Cash reimbursement form completed at all.</p> <p>2) IA noted that one transaction did not have the proper documentation uploaded into SAP.</p> <p>3) IA noted that 1 of the 115 transactions did not use the proper Accounting code when uploading the Petty Cash transaction.</p>	<p>8. The Finance Department should communicate and reinforce to all custodians to ensure only completed forms are accepted, including with all necessary signatures and sufficient and adequate supporting documentation.</p>	<p>Consistent application of Agency Policy A-02 ensures good internal controls and consistency in ensuring Petty Cash transactions are accurately documented in the correct form, are properly approved by supervisors/managers, and contain adequate supporting documentation.</p>

### **Follow up on Prior Internal Audit Recommendations**

IA performed follow-up procedures to consider the status of open recommendations from the 2017 Petty Cash Audit & Follow-up Review. The table below demonstrates the results of our follow up review.

<b>Rec #</b>	<b>Internal Audit Recommendation</b>	<b>Status</b>	<b>Comments</b>
1	FAD should reinforce the guidelines of the petty cash fund, including custodian responsibilities and internal controls over petty cash accountability and record-keeping.	<b>Implemented</b>	Currently, three of the four Petty Cash boxes are held at the HQA vault which is only accessible to a handful of staff. Additionally, reconciliations/record keeping is conducted once a month.
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.	<b>Not implemented; Restated as #7 above</b>	It was determined by the Finance and Accounting team that updates to the Monthly Mileage Log and Reimbursement Request would not be necessary. Going forward, more emphasis should be placed on the usage of Purchasing Cards over Petty Cash. See restated recommendation above.
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.	<b>Transferred to HR</b>	This recommendation was transferred to HR in the 2023 Follow-up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook.
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.	<b>Not Implemented; Restated as #8 above</b>	Based on IA's testing, the custodians had accepted forms that did not have the appropriate signatures or supporting documentation. These request forms did not conform to Agency Policies. See restated recommendation above.
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).	<b>Not Applicable</b>	The Finance Department has determined that the \$50 is adequate because of the expanded use of the Purchasing Card program.
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 of periodically.	<b>Implemented</b>	Based on review of transactions, there were no Petty Cash transactions conducted related to the purchase of Gift Cards. In discussions with Petty Cash custodians, this has been reminded to employees who have requested reimbursements with Petty Cash.
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.	<b>Transferred to HR</b>	This recommendation was transferred to HR in the 2023 Follow-up Review of Recommendations Related to Agency Policies and EthicsPoint, Board Resolutions, and Administrative Handbook.

### **Conclusion**

Additional reviews will be scheduled through the Board-approved Annual Audit Plan. Please contact any member of the Internal Audit Unit for additional information.

*The 2023 Petty Cash Audit and Follow-Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.*



# 2023 Petty Cash Audit & Follow-up Review

Teresa Velarde  
Manager of Internal Audit  
September 11, 2023



# 2023 Petty Cash Audit and Follow-up Review

## Audit Objective

- Determine that funds were accounted for
- Evaluate internal controls
- Follow-up on the recommendations from 2017



# 2023 Petty Cash Audit

## 2023 Petty Cash Count Results

Location	Amount	Overage/(Shortage)
HQA	\$1,250	\$0
HQB	\$400	\$0
RP-1	\$600	\$0

# 2023 Petty Cash Audit

Fiscal year 2023 transactions

Location	Amount	Number of Transactions
HQA	\$178.56	8
HQB	836.81	34
RP-1	2,216.95	73
Total	\$3,232.32	115





# Audit Observations & Recommendations

## 8 New Recommendations

Close and deposit cash from Petty Cash box assigned to IERCA
Replace the custodian at HQB
Evaluate the need for record keeping for key/custodian changes
Evaluate the \$10 maximum set for overtime meals and communicate the current policy requirement to all employees
Review and update the Petty Cash and Mileage forms
Ensure custodians accept only completed forms

## 7 Follow-Up Recommendation Status

2 have been implemented
1 is no longer applicable
2 have been reassigned to the HR Department in June 2023
2 have not been implemented; restated

***The 2023 Petty Cash Audit and Follow-Up Review is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment, and Business Practices by ensuring that IA's evaluations provide recommendations that foster a strong control environment, safeguard assets, promote a safe work environment and assist management in achieving organizational goals and objectives.***

**Questions?**

**INFORMATION  
ITEM  
2C**

**Date:** September 20, 2023

**To:** The Honorable Board of Directors

**Committee:** Audit



**From:** Teresa Velarde, Manager of Internal Audit

09/11/23

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** Progress Update for all Procure to Pay Audit Recommendations - Seventh 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, 60 are now considered implemented, 12 are in progress of being implemented and 48 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):* N *Amendment (Y/N):* Y *Amount for Requested Approval:*

*Account/Project Name:*

N/A

*Fiscal Impact (explain if not budgeted):*

N/A

**Prior Board Action:**

On July 19, 2023, the Board of Directors approved the Fiscal Year 2023/24 Annual Audit Plan.

---

**Environmental Determination:**

Not Applicable

---

**Business Goal:**

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

---

**Attachments:**


Attachment 1 - Progress Update for all Procure to Pay Audit Recommendations-Seventh Update  
Attachment 2 - Progress Update List of all outstanding P2P audits  
Attachment 3 - PowerPoint



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](http://www.ieua.org)

DATE: August 31, 2023

TO: Shivaji Deshmukh  
General Manager

FROM:   
Teresa V. Velarde  
Manager of Internal Audit

**SUBJECT: Progress Update for all Procure to Pay Audit Recommendations – Seventh 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) 2023/2024 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  
President

Steven J. Elle  
Vice President

Jasmin A. Hall  
Secretary/Treasurer

Michael Camacho  
Director

Paul Hofer  
Director

Shivaji Deshmukh  
General Manager

**Progress Update for all Procure to Pay Audit Recommendations – Seventh Update**  
**August 31, 2023**  
**Page 2 of 4**

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

Audit Report Title	Date Issued	Number of Recommendations
Interim Audit Report: Accounts Payable Operational and Internal Control Audit	August 20, 2021	None Interim Report
Review of Procure to Pay Processes for Chemicals	November 24, 2021	35
Review of Procure to Pay Processes for Professional Services – Engineering & Construction Management	February 24, 2022	21
Review of Procure to Pay Processes for Professional Services – Planning and Resources	May 24, 2022	11
Review of Procure to Pay Processes for Home Depot Credit Cards	September 1, 2022	7
Review of Procure to Pay Processes for Materials and Supplies	December 2, 2022	19
Review of Pay Estimate Processes	February 27, 2023	27
Total Recommendations Provided		120

The dashboard that follows illustrates a breakdown of the audit recommendations provided to each department and unit through the P2P audits with the status for each.

Unit	Status				Total Original Audit Recommendations
	Implemented	In Progress	Not Implemented	No Longer Applicable	
Operations – Materials & Supplies	-	0	0	2	2
Maintenance – Materials & Supplies	-	0	0	2	2
Warehouse – Materials & Supplies	1	0	0	1	2
Water Quality Laboratory – Materials & Supplies	1	0	0	3	4
Facilities and Water System Programs – Materials & Supplies	-	0	0	2	2
Procurement Card Program	2	0	0	1	3
Contracts and Procurement	7	2	0	2	11
Accounting	21	2	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	60	12	0	48	120
Percentages	50%	10%	0	40%	100%



***Of the 120 audit recommendations:***

- ***60 are now implemented***
- ***48 are considered no longer applicable because alternate controls were implemented. These recommendations are considered closed.***
- ***12 are in process of being implemented***

**Of the 12 recommendations in progress:**

- 2 recommendations are in the process 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 other recommendation relates to working closely with IT to add information about the project manager to ensure there is a direct contact person assigned. CAP continues to meet with Information Technology (IT) to discuss the needed updates.
- 2 recommendations are in the process of being implemented by Finance. These relate to documenting SOP's and providing training and establishing KPIs.
- 8 recommendations are in the process of being implemented by the Engineering department. These are related to improving the Pay Estimate process to streamline their internal operation.

**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:

- **Escher Implementation:** With the implementation of Escher, Finance has been able to implement and address several recommendations that were previously In Progress. Escher provides visibility of pending invoices and staff can take follow-up action immediately. Escher also provides several dashboards and reports to quantify activities and keep track of the processes. Finance 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

## **Progress Update for all Procure to Pay Audit Recommendations – Seventh Update**

**August 31, 2023**

**Page 4 of 4**

Administrator was assigned to implement and oversee the program, provide training and assistance to end-users, and implement US Bank Online system process. IA recently completed a review of the P-card program and provides the audit results under a separate report, see the audit report titled 2023 Review of Agency's Purchasing Card Program – Food, Training and Travel Purchases.

- On-going inter-departmental communications: The Finance Department continues to improve and enhance their processes as well as 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. Examples include a virtual Q&A session each month "CAP Café", Bits & Bytes, various updates from Finance. The additional outreach efforts have provided valuable information for all employees.

The next progress update will report on the 12 remaining recommendations. Additional progress updates will be submitted until all recommendations are addressed.

The matrix attached provides a list of each outstanding audit recommendation with a status for each. For additional details and results of the recommendations resolved, 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 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 – Seventh 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 Audit Recommendations - 7th Progress Update Report

Page 1 of 9

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 provided this recommendation to five different departments with PO/PR purchases, also with outlying locations with requirement to receive in SAP with shipping documents or with the invoice submitted from Accounting. IA noted that there would be follow up work. 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.  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.

## P2P Audit Recommendations - 7th Progress Update Report

Page 2 of 9

M&S	11	Mnt	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.					
			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	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	Staff did not provide a response. Based on the results of timeliness of payments with the use of Esker this recommendation is now considered closed and No Longer Applicable.  8/28/2023 Staff did not provide a response. Based on the results of timeliness of payments with the use of Esker this recommendation is now considered closed and No Longer Applicable.  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	Staff did not provide a response. Based on the results of timeliness of payments with the use of Esker this recommendation is now considered closed and No Longer Applicable.  8/28/2023 Staff did not provide a response. Based on the results of timeliness of payments with the use of Esker this recommendation is now considered closed and No Longer Applicable.  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.  8/23/23 This recommendation is now considered No Longer Applicable because this recommendation is being transferred to the PCard Audit for evaluation and follow up. As of July 2023, IA began the PCard audits and this recommendation will be evaluated in those reviews. This has been communicated to management.

## P2P Audit Recommendations - 7th Progress Update Report

Page 3 of 9

								<p>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.</p> <p>IT provides an additional level of review prior to posting for any missing required documentation or support.</p>	
M&S	4	CAP	<p>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.</p>				X	<p>On 8/24/23, CAP indicated that this item will require additional work and research. However, CAP staff did note that the amount of POs has significantly reduced as a result of the PCard expansion (a reduction of 735 POs from prior FY to this current FY). Staff will evaluate the cost/benefit and the need to either implement or determine if this item is no longer needed.</p> <p>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 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.</p>	<p>8/29/23 This recommendation is now being closed as No Longer Applicable under the P2P Audits for improving payment to vendors. The updates to the Procurement Ordinance, the expansion of the PCard program, the implementation of Esker invoice tracking system and other updates to processes in Accounting, CAP and all other Agency Departments have worked concurrently to improve the timeliness of payments to vendors. Per discussions with staff, it appears that this recommendation is no longer necessary at the current time to improve the payment of invoices. CAP staff indicated that in order to fully implement this upgrade to the system, a consultant would need to be identified and work to implement. CAP and IT have discussed and evaluated the cost/benefit of making those upgrades at this time and due to the lower POs this is not an immediate priority. However, staff also indicated that this is a great concept they would like to see implemented and addressed in the long run and potentially in the future with a new system or upgrade. For this reason, IA will determine that this item is No Longer Applicable for the P2P initiatives and will evaluate this concept under a separate audit in the future.</p>
M&S	5	CAP	<p>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.</p> <p><i>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.</i></p>		X			<p>On 8/24/23, CAP staff stated that this item should be addressed and final within the next 30 days as they have been working closely with IT and other groups to implement.</p> <p>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.</p> <p>This will allow for the full name, email and phone number to be included and visible in the PO.</p>	<p>8/29/23 The recommendation will continue to be In Progress pending full finalization and implementation to the satisfaction of CAP.</p>

## P2P Audit Recommendations - 7th Progress Update Report

Page 4 of 9

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		<p>On 8/29/23 Staff indicated that the policy is in final draft form pending final management review, approval. CAP anticipates this will be complete in the next 30 days.</p> <p>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.</p> <p>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.</p> <p>CAP stated they would take the lead to evaluate A-50 and provide recommendations to update.</p>	<p>8/29/23 The recommendation will continue to be In Progress pending full finalization of the guidelines and clear communication to employees.</p> <p>8/17/2022. CAP is meeting with Accounting to discuss and review the required policy updates.</p> <p>November 2022 - CAP indicated they continue to work on this item.</p>
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 evaluate if there are modules or functions in SAP, the Agency's ERP system, to upload Pay Estimate information.		X		<p>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 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</p>	<p>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 support tickets were submitted and the type.</p> <p>At this time the recommendation will be considered In Progress.</p>
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		<p>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</p>	<p>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.</p>

## P2P Audit Recommendations - 7th Progress Update Report

Page 5 of 9

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		check all modules when new enhancements/upgrades are implemented. Response provided on 5/1/2023	
							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? <b>Do you believe this needs to be reinforced? IA recommends this be reemphasized annually.</b> 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.	<b>5/20/2023 similar to comment above, Do you believe this training needs to be reinforced? IA recommends this be reemphasized annually.</b> 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 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 will be moving from using the G/EN drive into using Teams for all active project documentation starting in July 2023. 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	<b>5/20/2023</b> Thank you for your response. This recommendation will be considered In Progress, IA will 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		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	<b>5/20/2023</b> Thank you for your response. This recommendation will be considered In Progress, IA will follow up with you in July/August to



## P2P Audit Recommendations - 7th Progress Update Report

Page 6 of 9

			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.					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	determine if a more efficient process has been implemented.
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, 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			This is similar to action item 18. Engineering reached out to AP and verified that one week before the week of the 20 <sup>th</sup> 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
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	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				X	8/28/2023: Staff stated that The Open PO report is and has been checked to close out old POs and extend existing ones into the current FY.  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.	8/28/2023: Staff indicated that the report is now used and training has been provided. Based on the results of the payment timeliness with the use of Esker, there appears to be sufficient controls in place to ensure invoices are paid timely. The recommendation will be considered closed and no longer applicable due to the new controls.

## P2P Audit Recommendations - 7th Progress Update Report

Page 7 of 9

			Accounting or CAP to run report or identify items that still require receiving in SAP.					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	8/28/2023: Staff indicated that they have been independently processing invoices in Esker for the lab and continue to check in with lab management for appropriate approvals prior to processing and receiving in SAP.  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.	8/28/2023: Staff indicated that current process to process invoices through Esker is helping with ensuring timeliness of payments. Based on the results of the payment timeliness with the use of Esker, there appears to be sufficient controls in place to ensure invoices are paid timely. The recommendation will be considered closed and no longer applicable due to the new controls.  This recommendation will be concurrently implemented with #16 above along with the training of the Open PO Report and other SAP receiving responsibilities.
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			8/29/2023: staff stated that we are working on enhancing the KPIs on Esker and will be publishing them on Esker homepage (dashboard). Accounting staff is working closely with Operations staff with regards to the chemical receiving reconciliation and should have a more defined process in the next quarter.  7/10/2023 Accounting staff is working w/ Esker to enhance the KPI for general process, not just chemical. For chemical-specific, we have started a new standardized data set in Esker to capture the delivery location to help operation's staff w/ vendor reporting & reconciliation.  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.	8/29/2023: based on the response, the recommendation will continue to be in progress pending full implementation of the tools and reports the staff is working on.  7/10/2023. Recommendation will continue to be In Progress, pending Accounting's final response and implementation action.  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.

## P2P Audit Recommendations - 7th Progress Update Report

Page 8 of 9

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			<p>8/29/2023: Staff stated that they published all training videos for AP staff to review on new processes and continue for all upcoming training sessions. We will start a new project next month to document SOP in written format to further complement the training videos.</p> <p>7/10/2023 in progress. Accounting staff have the SOP in a Teams AP site for staff to use – staff will continue to update Esker screens as they process live data.</p> <p>4/12/2023: new SOP will be documented with Esker point of entry.</p>	<p>8/29/2023 Per staffs response this recommendation will continue to be In Progress until SOPs have been documented accordingly.</p> <p>7/10/2023 &amp; 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.</p>
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				<p>7/10/2023 The PE training is complete – accounting have the training videos + SOP short notes on Teams AP group site for all AP staff to use. Accounting is rotating the processing of PE among all AP staff – each staff volunteers to take PE for 3 months to learn the process &amp; experience the full cycle up to retention release.</p> <p>4/12/2023: Training is in progress with new Pay Estimate process for all AP staff.</p>	<p>7/10/2023 Recommendation is now considered implemented because Accounting is providing on-going training to staff, rotating individuals to ensure each staff member learns how to process PEs. Accounting staff noted that currently 2 AP staff are fully trained, and the rotation continues until all employees understand the process.</p> <p>5/10/2023 Recommendation will be considered In Progress until the training is completed.</p>
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				<p>8/29/2023: staff stated that the existing forms are working fine. Additionally, they are in contact and working with Engineering on their efforts and work to enhance CIPO for the PE form to send to AP, but we have not seen it yet outside of draft mode.</p> <p>7/10/2023 Engineering staff is working w/ CIPO consultants to enhance the form –the new form may be available for use in during the July PE payments (later in the month).</p> <p>4/12/2023: completed. Met with Rachael Solis about form requirements and provided improvement request to her 4/12/2023.</p>	<p>8/29/2023 Per Accounting's staff's response, this recommendation is now considered Implemented because they have evaluated the Pay Estimate Form and have indicated this form works for them. Additionally, with the implementation of Esker and routing the PE through Esker improves visibility, monitoring and tracking of the various stages of the process. IA will continue to follow up with Engineering staff on their planned enhancements and work with CIPO to improve their processes for the PE.</p> <p>7/10/2023 Recommendation will be considered In Progress until Accounting determines there is a final form.</p> <p>5/10/2023 Recommendation will be considered In Progress until the forms</p>

# P2P Audit Recommendations - 7th Progress Update Report

Page 9 of 9

								updates is complete or Accounting determines that all information on the PE form is sufficient to effectively process Pay Estimates.
		See the complete Audit Report for details of total counts*	60	12	0	48		



# P2P Progress Update #7

Teresa Velarde  
Manager of Internal Audit  
September 11, 2023



# Progress Update #7

Unit	Status				Total Original Audit Recommendations
	Implemented	In Progress	Not Implemented	No Longer Applicable	
Operations – Materials & Supplies	-	0	0	2	2
Maintenance – Materials & Supplies	-	0	0	2	2
Warehouse – Materials & Supplies	1	0	0	1	2
Water Quality Laboratory – Materials & Supplies	1	0	0	3	4
Facilities and Water System Programs – Materials & Supplies	-	0	0	2	2
Procurement Card Program	2	0	0	1	3
Contracts and Procurement	7	2	0	2	11
Accounting	21	2	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	60	12	0	48	120
Percentages	50%	10%	0	40%	100%

# Progress Update #7

*Of the 120 audit recommendations:*

- *60 are now implemented*
- *48 are considered no longer applicable because alternate controls were implemented. These recommendations are considered closed.*
- *12 are in process of being implemented*



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

**Questions?**

# **INFORMATION ITEM 2D**

**Date:** September 20, 2023

**To:** The Honorable Board of Directors

**Committee:** Audit

  
**From:** Teresa Velarde, Manager of Internal Audit

09/11/23

**Manager Contact:** Teresa Velarde, Manager of Internal Audit

**Subject:** Internal Audit Quarterly Status Report for September 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 an audit of Purchasing Card Expenses related to food, training and travel and a Petty Cash Audit, 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, Global Knowledge Brief which Artificial Intelligence.

---

**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 July 19, 2023, the Board of Directors approved the Fiscal Year 2023/24 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 September 2023

Attachment 2 - Article: The Artificial Intelligence Revolution, published by the IIA

---

## *Internal Audit Unit Quarterly Status Report*

---

### **Projects Completed This Quarter**

**Project:**

**2023 Review of Agency's Purchasing Card Program – Food, Training and Travel Purchases**

**Scope:**

The objectives of the Purchasing Card (P-card) audit were to assess and evaluate the internal controls over the Agency's P-card program and determine if there are sufficient internal controls and guidance in place to ensure the purchases are in accordance with established ordinances and policies (Procurement Ordinance Number 110 and Draft P-Card Pilot Program Policy (August 2022)), additionally, to identify opportunities to improve the program. Lastly, to evaluate the implementation status of the seven outstanding audit recommendations from the original audit completed in 2018.

**Status: Complete**

As of August 7, 2023, there were 246 Agency P-cards assigned to both IEUA staff. Total paid for P-card transactions, for both IEUA and IERCA expenses was over \$2.1 million to US Bank in Fiscal Year 2023.

Using the data from the US Bank Access® Online system, there were over 4,000 transactions processed (IEUA only) for the 12-month period, July 1, 2022 to June 30, 2023. IA selected P-card transactions related to food, meals, restaurants, training, and travel, for additional audit testing. The bullet points below provide a summary of the audit observations and recommendations. The report attached provides details:

- Update and finalize the Draft P-Card Policy or Agency Policy A-89.
- Evaluate the internal control processes to issue an Agency P-card or make changes to the originally, approved spending limits.
- Develop guidelines when itemized supporting documentation is misplaced.
- Develop guidelines for tips and gratuities as well as purchase for food and meals when dining at restaurants or ordering food directly from a restaurant or through catering or delivery service.
- Establish a Committee to review and formalize guidelines related to travel, meal, food and catering purchases for Agency-related meetings, work projects, training and travel, in addition to gratuities and per diem amounts to ensure there is guidance on these areas.
- Evaluate the purpose and update the forms for training and travel to ensure they meet the Agency's current processes and expectations.
- Develop guidelines related to the proper use of expense accounts.

This audit provides 12 audit recommendations. The results of the audit and the recommendations have been discussed with management and they have indicated these will be addressed. Details of the observations and recommendations are included in the audit report under a separate cover.

**Project:**

**2023 Petty Cash Audit and Follow-Up Review**

**Scope:**

The purpose of this audit was to determine whether the Petty Cash funds were accounted for and to evaluate the internal controls in place for safeguarding the cash.

**Status: Complete**

## *Internal Audit Unit Quarterly Status Report*

IA conducted cash counts at the three locations which maintain a Petty Cash box. IA also completed a follow-up review of the outstanding recommendations. Overall, noted that funds were accounted for, and expenditures appeared reasonable.

The attached report provides details of the recommendations, below are summary points:

- Finance staff should evaluate and properly close the Petty Cash fund assigned to IERCA.
- Finance staff should evaluate the need to replace the Petty Cash custodian at HQB.
- There is a need to update guidelines for overtime meals purchased with either payment method.
- Reinforcement is necessary to ensure custodians only accept complete forms along with the complete supporting documentation.
- There is a need to improve and enhance the forms currently used for reimbursements.
- There is a need to document custody changes.

This audit provides 8 audit recommendations. The results of the audit and the recommendations have been discussed with management and they have indicated these will be addressed. Details of the observations and recommendations are included in the audit report under a separate cover.

### **Project:**

**Accounts Payable Operational and Internal Control Audit:  
Quarterly Progress Update for all P2P Audit Recommendations – 7<sup>th</sup> 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 August 30, 2023, of the 120 audit recommendations provided through the P2P audits, 60 are now considered implemented, 12 are in progress of being implemented and 48 are considered no longer applicable because alternate controls were implemented. Of the 12 recommendations in progress, 2 are in progress of being implemented by Finance, 8 are in progress of being implemented by Engineering, and 2 is in progress of being implemented by Contracts and Procurement. 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: Inventory Warehouse Count –**

### **Scope:**

IA participated in the observation of the monthly and biannual cycle count conducted by the Warehouse in June 2023. The purpose of IA's observation of the monthly and biannual cycle count was to observe the count as part of the annual financial audit process, and to coordinate audit efforts with the Agency's external financial audit firm, CliftonLarsonAllen LLP (CLA), and to be available as an audit resource on behalf of the Agency. Additionally, the purpose was to perform an independent spot check to verify the biannual and monthly cycle count.

### **Status: Complete**

IA observed the physical count at the Agency's Warehouse located at Regional Plant 1. IA confirmed that the practices currently conducted by the warehouse staff are effective and efficient. Overall, the results reflect a net shrinkage of .09% to SAP's inventory stock value. There was a slight decrease of .02% in the physical count compared to SAP's units. Additionally, CliftonLarsonAllen (CLA) LLP, the Agency's external financial auditors, performed a separate spot check as part of their annual financial audit. No issues were noted by CLA. No further report is needed.

---

## *Internal Audit Unit Quarterly Status Report*

---

### **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 as 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 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, as well as the preparation of the Annual Financial Report. Additionally, participated in the 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 50 hours of staff time participating in these types of meetings.



## Internal Audit Unit Quarterly Status Report

**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 implements 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**

## Internal Audit Unit Quarterly Status Report

As of September 2023, there are 129 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*
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	4
Payroll Operations Audit	August 30, 2017	5
Procurement Card Audit	March 1, 2018	4
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	4
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	4
Accounts Payable Operational and Internal Controls Audit Report Review of Procure to Pay Processes for: <ul style="list-style-type: none"> <li>Chemicals (November 24, 2021)</li> <li>Engineering &amp; Construction Management (February 24, 2022)</li> <li>Planning &amp; Resources (May 26, 2022)</li> <li>Materials &amp; Supplies (December 2022)</li> </ul> <i>(Open recommendations as of August 31, 2023)</i>	See dates each audit was completed under column called Area Audited	12
Large and Heavy-Duty Equipment and Vehicles Audit	June 2, 2023	18
Follow-up Review of Recommendations Related to Agency Policies and EthicsPoint, and Board Resolutions, and Administrative Handbook	June 1, 2023	21
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
<b>Total Outstanding Audit Recommendations</b>		<b>129</b>

\* 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.

---

## *Internal Audit Unit Quarterly Status Report*

---

### **Summary**

As of September 2023, 129 recommendations remain outstanding:

- 31 relate to the renegotiation of the Regional Contract (to be evaluated next quarter)
- 21 relate to needed updates to Agency policies

**Eligible for follow up evaluation:**

- **12 recommendations relate to ongoing P2P follow-up reviews completed quarterly**
- **65 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 assist 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

---

## *Internal Audit Unit Quarterly Status Report*

---

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 Global Knowledge Brief from the Institute of Internal Auditors titled *The Artificial Intelligence Revolution: Understanding, Adopting, and Adapting to AI*. The general topics discussed include the initial steps towards implementing, regulating, and opportunities to AI usage. The article details opportunities, challenges, and risks going forward for many industries. Additionally, it supports Internal Audit's role in assessing risk and providing foresight while providing proven skills to support AI Risk Management. Finally, best practices for putting AI to work is discussed.

### ***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 to 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 training, 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:

- CSMFO – Intermediate Governmental Accounting/Financial Reporting
- Wolters Kluwer – Audit Value – Extend your Contribution
- Wolters Kluwer – Cybersecurity Discussion for State and Local Auditors
- IIA- Emerging Business Models and the Role of Internal Audit
- 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, 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
- Monday, September 9, 2024 - Regularly Scheduled Audit Committee Meeting

---

## *Internal Audit Unit Quarterly Status Report*

---

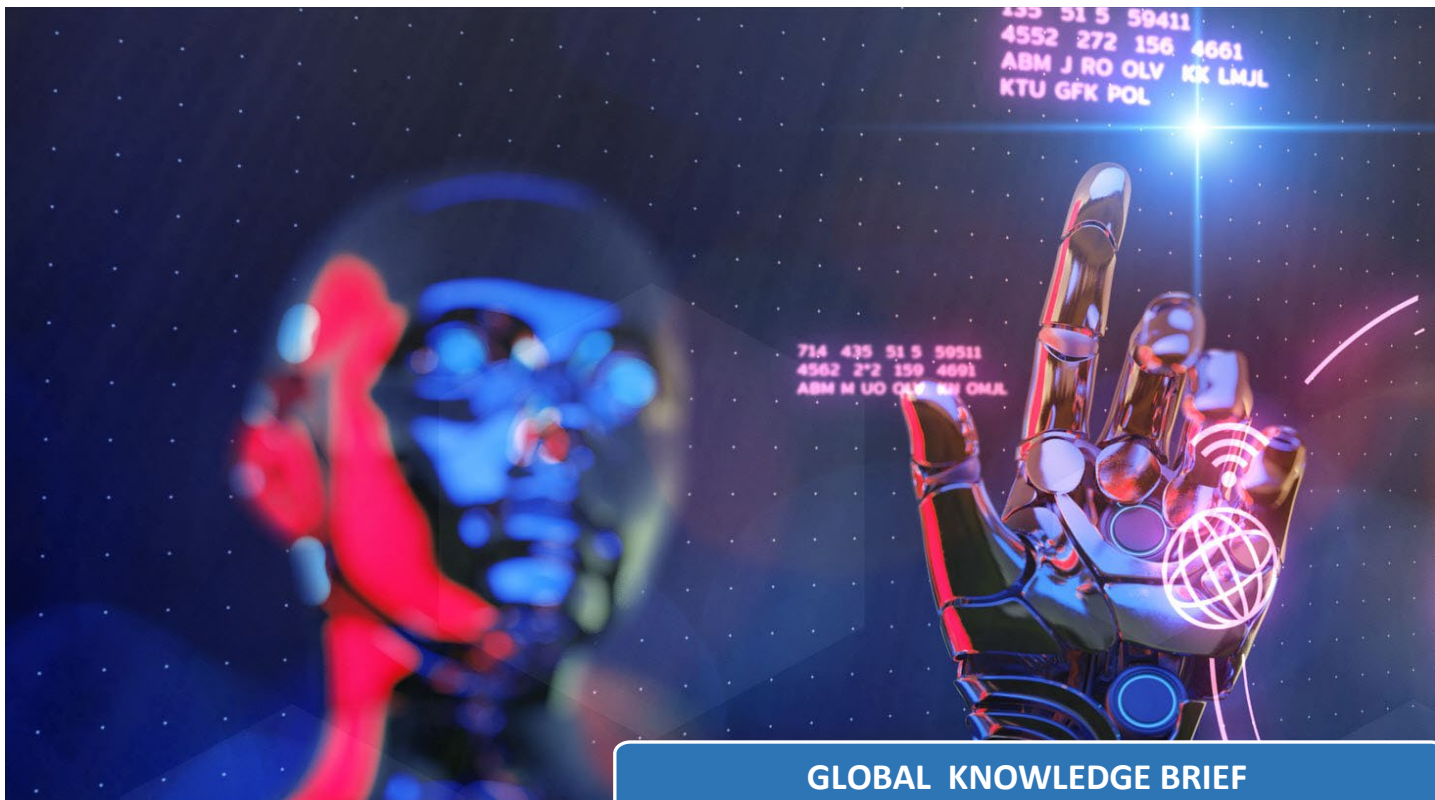
Internal Audit Staff participated in various professional development and volunteer opportunities.

**In late June 2023, Internal Audit staff assisted the Warehouse team with their annual inventory count.**



**IA participated on the Employee Annual Summer Celebration in July of 2023.**





GLOBAL KNOWLEDGE BRIEF

# The Artificial Intelligence Revolution

---

Part 1: Understanding, Adopting, and Adapting to AI



The Institute of  
**Internal Auditors**

# CONTENTS

---

<b>INTRODUCTION .....</b>	<b>3</b>
A Growing Area .....	3
<b>UNDERSTANDING AI .....</b>	<b>4</b>
Getting Beyond Simple Automation .....	4
Putting AI to Work.....	5
Opportunities, Challenges, and Risks .....	6
<b>THE ROLE OF INTERNAL AUDIT .....</b>	<b>8</b>
Trusted Techniques and Proven Skills Support AI Risk Management .....	8
Best Practices for Putting AI to Work .....	8
<b>CONCLUSION .....</b>	<b>10</b>





## About the Expert

### Eric Wilson, CIA, CISA

Eric Wilson is the director of internal audit and CAE at Gulfport Energy. He previously led internal audit and consulting teams for various domestic and international companies in a wide range of industries, including energy, commercial real estate, and healthcare. He serves as a member of the Board of Advisors for the University of Oklahoma's Steed School of Accounting, has lectured on internal auditing at several universities, and holds active leadership positions with multiple local and nonprofit organizations. He currently serves on The Institute of Internal Auditors (IIA) Professional Knowledge Committee and North American Content Advisory Committee. He is a member of the Board of Governors of The IIA's Oklahoma Chapter.

# INTRODUCTION

---

## A Growing Area

**When ChatGPT was released in November 2022**, it was considered a significant leap forward in artificial intelligence (AI). Many compared it to the internet in terms of its potential to change and disrupt current business practices, regulations, and social norms.

ChatGPT and the rapidly emerging alternatives to it are examples of generative AI. Generative AI is powered by large language models, systems that are trained on enormous amounts of data from a variety of sources that are processed by a neural network modeled on the human brain to develop requested outputs. When prompted, it uses this training and algorithms to develop content — including text, images, videos, sounds, speech, and code — that resembles something a human might create.

While this specific system has received a tremendous amount of attention, it is only one example of the many tools that fall under the AI umbrella. AI is at the heart of every smart device that we use, and it also drives far more sophisticated applications that are transforming businesses. It is being put to work in business, government, health care, and many other fields to replicate human analysis and even decision making.

The global composite AI market is projected to increase from \$900 million in 2023 to \$4.4 billion by 2028, rising at a compound annual growth rate of 36.5% as the expanding availability of data and AI resources spur the use and development of new AI solutions<sup>1</sup>. The vast majority of business leaders (94%) believe AI will be critical to their organizations' success over the next five years, according to the [most recent edition](#) of Deloitte's "State of AI in the Enterprise".<sup>2</sup>

"AI may become the most disruptive technological development to date, creating new opportunities and risks in every aspect of business and life," according to an *Internal Auditor* magazine [article](#)<sup>3</sup>. Internal auditors are well-versed in assessing the risks and opportunities that affect whether an organization can meet its objectives. Using their insight and experience, "internal audit can help an organization evaluate, understand, and communicate the degree to which artificial intelligence will have an effect (negative or positive) on the organization's ability to create value in the short, medium, or long term," according to "[Artificial Intelligence—Considerations for the Profession of Internal Auditing](#)"<sup>4</sup> from The Institute of Internal Auditors (IIA).

Given the broad and rapid growth of AI use, it's important that internal auditors quickly develop a deep understanding of how it works, its practical applications in business and government, and the risks and opportunities it presents to organizations. This brief will examine these areas in depth and provide best practices and insights for keeping pace.

94%

of business leaders  
believe AI will be  
critical to their  
organizations' success  
over the next five  
years.

Source: Deloitte - State of AI in  
the Enterprise, 5<sup>th</sup> Edition

---

<sup>1</sup> "\$4.4 Billion Composite AI Markets: Growing Intricacy of AI Applications for Better Performance and Accuracy to Drive Growth - Global Forecast to 2028," Research and Markets press release, June 13, 2023.

<sup>2</sup> "State of AI in the Enterprise, Fifth Edition," Deloitte, October 2022.

<sup>3</sup> "Auditing Artificial Intelligence," James Bone, *Internal Auditor*, October 14, 2020.

<sup>4</sup> "Artificial Intelligence—Considerations for the Profession of Internal Auditing", The Institute of Internal Auditors, 2017.

# UNDERSTANDING AI

## Machine Learning and Simulated Human Intelligence

---

### Getting Beyond Simple Automation

**The terms AI and automation are often used interchangeably.** This reflects a limited understanding of AI's more powerful and game-changing potential. Indeed, while AI can automate routine tasks, it has much greater abilities and uses. For example, robotic process automation (RPA), a basic level of automation, uses structured data and logic to perform repetitive, rule-based processes, such as accounting workflows and data collection. In doing so, it enables people to take on higher-level tasks. It can replicate human *actions*, but more sophisticated AI tools can perform tasks that simulate human *intelligence*, such as understanding normal human communications, taking on problem solving, and offering higher performance and operational efficiency. Automation follows established rules, while AI relies on the training it has received to make its own decisions.

AI and machine learning solutions can fall into several categories, including:

- Descriptive: What happened?
- Diagnostic: Why did it happen?
- Predictive: What could happen next?
- Prescriptive: What should be done next?<sup>5</sup>

However, AI currently doesn't possess the kind of judgment or context that enables humans to make the best decisions, although those abilities may be enhanced as technology advances.

Additionally, AI is only as good as its training. In studying cases involving rule violations, researchers from MIT and other organizations found that if machine-learning models are not trained on the right data, "they are likely to make different, harsher judgments than humans would."<sup>6</sup> Risks related to AI's limitations will be discussed in another section.

---

<sup>5</sup> "AI and Machine Learning: It May Not Be as Difficult as You Think," RSM, September 7, 2022.

<sup>6</sup> "Study: AI Models Fail to Reproduce Human Judgements About Rule Violations," Adam Zewe, MIT News, May 10, 2023.



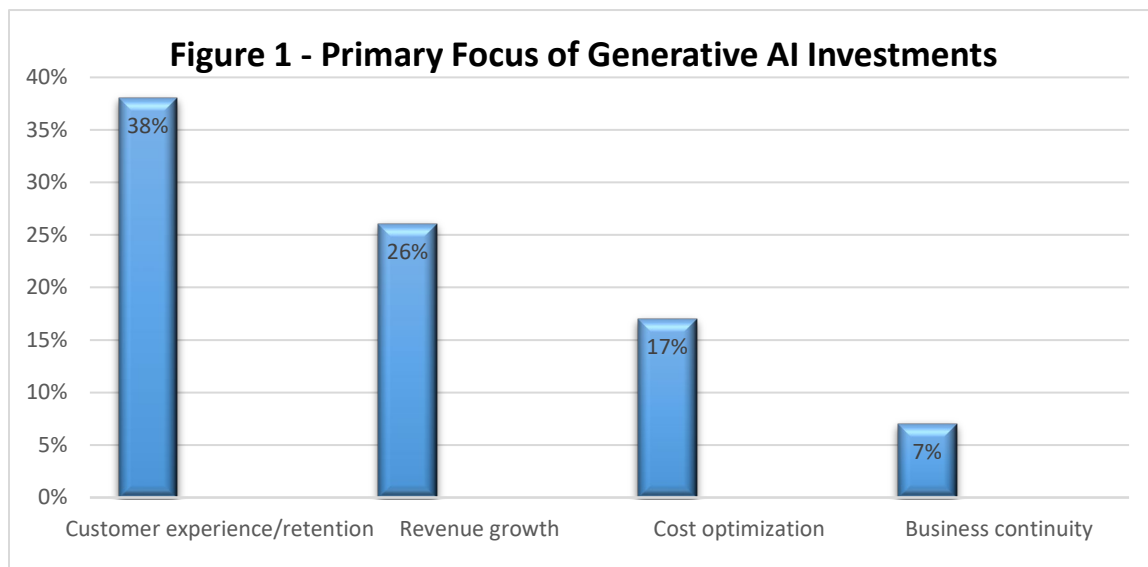
## Putting AI to Work

Practical applications of AI include everyday tools that have been in use for years, such as online search engines; chatbots that provide simple information and answers to questions; voice assistants, such as Alexa and Siri, that respond to commands and perform tasks; Google Maps and similar tools to select the best travel and delivery routes; self-driving cars; customized online shopping experiences; and personalized advertising. Gartner cites examples of the ways that generative AI, for example, can be used in drug design, material science, chip design, synthetic data, and part design.<sup>7</sup>

Other business and government use cases of AI include:

- Solving skill shortages by automating tasks.
- Enhancing IT or network performance.
- Designing strategies to retain or appeal to specified customers and improve customer experience. For example, a recent *Harvard Business Review* [article](#) noted that Brinks Home, a smart-home-technology company, used AI to gain brand recognition in a competitive market.<sup>8</sup>
- Identifying and preventing fraud or errors in financial information.
- Forecasting product or service demand based on customer history/feedback, along with market and economic activity.
- Addressing sustainability objectives. AI can help achieve 79% of the UN General Assembly's Sustainable Development Goals, according to [Nature Communications](#).<sup>9</sup>
- Prioritizing customer opportunities or leads.
- Tracking responses to sales campaigns, market research, and search engine optimization (SEO).
- Streamlining and enhancing customer support activities.

At present, generative AI investments in business remain largely focused on improving customer relations and growing revenue. Most organizations have yet to commit significantly to efforts that drive new business opportunities or new markets using generative AI, according to a recent Gartner [survey](#) (see Figure 1).



Source: Gartner survey of more than 2,500 executives, 2023<sup>10</sup>

<sup>7</sup> "Beyond ChatGPT: The Future of Generative AI for Enterprises," Jackie Wiles, Gartner, January 26, 2023.

<sup>8</sup> "Customer Experience in the Age of AI," David C. Edelman and Mark Abraham, *Harvard Business Review*, March-April 2022.

<sup>9</sup> "The Role of Artificial Intelligence in Achieving the Sustainable Development Goals," Ricardo Vinuesa, et al., *Nature Communications*, January 13, 2020.

<sup>10</sup> "Gartner Experts Answer the Top Generative AI Questions for Your Enterprise," Gartner, 2023.

## Opportunities, Challenges, and Risks

In developing and implementing an AI strategy, companies must understand not only the possibilities, but also the limitations and threats that this technology can pose. As companies scramble to implement AI solutions, examples of AI opportunities include the ability to:

- Shorten the data processing cycle.
- Minimize potential errors by replacing human actions with perfectly repeatable machine actions.
- Use process automation to lower labor time and costs.
- Employ robots or drones for potentially dangerous work.
- Make more accurate predictions about topics that can range from potential sales in specific markets to predicting epidemics and natural catastrophes.
- Use AI initiatives and efficiencies to drive revenue and market share growth.<sup>11</sup>

For all its benefits, there may be challenges to harnessing AI. According to the [IBM Global AI Adoption Index](#), nearly one in five companies cited difficulties in:

- Ensuring data security.
- Ensuring data governance.
- Managing disparate data sources and formats.
- Integrating data across any cloud.<sup>12</sup>

Organizations may not recognize how best to benefit from the opportunities of AI. At the same time, failure to fully understand the workings of these systems and the biases and errors that may infiltrate their training and output could leave companies unknowingly vulnerable to a variety of threats. Risks that may cause reputational or financial damage, among other threats, include:

- **Lack of transparency.** Unidentified biases or errors incorporated into AI technology can lead to a range of improper decisions, including discrimination in hiring or providing credit, for example.
- **Maintaining security and confidentiality of information.** “The potentially disastrous effects of a cybersecurity breach involving AI cannot be overstated,” according to The IIA’s [Artificial Intelligence—Considerations for the Profession of Internal Auditing](#). The IIA recommended that if organizations don’t already have sufficient cybersecurity, CAEs should continuously inform stakeholders that it must be built up rapidly. As organizations move to gather and store increasingly large volumes of data, they may be vulnerable to breaches, privacy violations, loss of data, or system failure caused by internal errors and the acts of hackers or other cybercriminals. Tactics used by cybercriminals can also include “model poisoning,” where a machine learning model’s training data is deliberately polluted. This can corrupt systems, produce incorrect data, trigger denial of service, or initiate malware attacks that can paralyze organizations.<sup>13</sup>

### Initial Steps Toward Regulating AI

The rapid rise and the potential risks of AI have prompted calls for greater regulation. The European Parliament has approved a draft of the [Artificial Intelligence Act](#), which calls for greater transparency and safeguards. The law establishes three levels of AI risk: applications and systems considered unacceptable risk, which are banned; high-risk applications, which are subject to stated legal requirements; and those of limited risk, which could comply with minimal transparency regulation. Generative AI would also have to comply with transparency requirements. Fines range up to \$33 million, or 6% of a company’s annual global revenues.

In the U.S., the White House has issued a [fact sheet](#) and a [blueprint for an AI Bill of Rights](#) aimed at ensuring safe and effective systems. China has also [drafted regulations](#) setting potential guardrails on generative AI. In addition, Sam Altman, the CEO of OpenAI, the creator of ChatGPT, has [called for](#) coordinated international regulation of generative AI and signed a [statement on AI risk](#) along with hundreds of other AI experts and public figures.

<sup>11</sup> [Artificial Intelligence—Considerations for the Profession of Internal Auditing](#), Institute of Internal Auditors, 2017.

<sup>12</sup> [IBM Global AI Adoption Index 2022](#).

<sup>13</sup> “Do Free AI Tools Pose a Security Risk to Your Business?”, Rebecca Neubauer, Business News Daily, May 16, 2023.



- **Legal challenges.** Plagiarism, copyright infringement, or intellectual property violations are potential pitfalls if the content that AI generates is not original. Additionally, inadequate testing and oversight of AI can lead to ethically questionable results.
- **Vendor or supplier dependency.** This can be a particular threat as AI becomes key to a wide range of organizational systems and functions.<sup>14</sup> Among other concerns, organizations should ensure that risk-assessment indicators properly address the dangers involved in using or integrating third-party tools, given the associated concerns about vendor or supplier actions and behaviors.
- **Employment losses.** Organizations could face tough decisions if AI replaces workers who can't be reassigned or are unable to find similar jobs. In addition to the toll for individuals, unemployment in an area or industry can lead to economic and social disruption.
- **Regulatory risks.** As governments attempt to understand and address AI's use, organizations may have to pivot their AI strategies to an evolving regulatory landscape. There may also be legal risks if issues with their AI systems cause financial losses for others or if they violate human rights or ethical standards.
- **Environmental considerations.** The systems that power AI use large amounts of electricity, which can counteract organizations' sustainability efforts and hinder achievement of their environmental, social, and governance (ESG) goals.
- **Investment decision making and results.** The organization may be at a competitive disadvantage due to insufficient investment in AI initiatives or resistance to these initiatives from customers, employees, or other stakeholders. Return on AI investment (infrastructure, research and development, and talent acquisition) may not be adequate. Without a robust AI strategy, these issues may stymie an organization's effort to make the best use of AI tools.

---

<sup>14</sup> "Artificial Intelligence and The Top 6 Business Risks," Chandu Gopalakrishnan, April 28, 2023, The Cyber Express.



# THE ROLE OF INTERNAL AUDIT

## Assessing Risk and Providing Foresight

### Trusted Techniques and Proven Skills Support AI Risk Management

Internal audit is well-equipped to help organizations assess and communicate AI's impact on value creation and achievement of goals. Internal audit leaders can incorporate AI considerations into their risk assessments and determine how AI should be included in a risk-based audit plan. Practitioners should take an active role in AI projects from the outset. Acting as trusted advisors, internal auditors can offer advice and insight on implementation. This assumes proficiency has been or will be acquired in the relevant areas. Additionally, internal audit can provide assurance over related risk areas, such as AI's impacts on readiness and response to cyber threats. It's important to note that, to maintain independence and objectivity, internal auditors should not take ownership or responsibility for AI implementation or other steps.

If an organization already has implemented AI into its operations or a product or service, internal audit can:

- Offer assurance over risk management related to the reliability of the underlying algorithms and the data on which they are based.
- Ensure that related moral and ethical issues are being addressed.
- Offer assurance on AI governance structures.

Internal auditors are equipped to perform these roles because of their:

- Understanding of the organization's strategic objectives and how they are achieved.
- Ability to assess whether AI activities are accomplishing their objectives.
- Ability to offer internal assurance over management's AI risk management efforts.
- Position as a trusted advisor that can offer insights on using AI to improve business processes or enhance product and service offerings.

### Best Practices for Putting AI to Work

As daunting as AI may sound, the best approach for internal auditors is to embrace it as quickly and as much as possible.

"Don't hide from advanced technologies such as AI," advised Eric Wilson, CIA, CISA, director of internal audit and CAE at Gulfport Energy Corporation. For many companies, AI has already appeared on their risk profiles for several years, but some decide to put off tackling it due to lack of understanding of it and how it should be audited. However, Wilson notes that auditors will have to develop expertise in tools that their organizations are already using or may be taking on soon.

### AI Frameworks and Standards

In 2017, The Institute of Internal Auditors published one of the first frameworks for auditing artificial intelligence. Other relevant guidelines on AI include:

An [AI Risk Management Framework](#) from the U.S. National Institute of Standards and Technology (NIST), which includes related [research and standards](#).

The [Trustworthy & Responsible Artificial Intelligence Resource Center](#), part of NIST, is a repository for current U.S. federal guidance on AI.

The U.K. Information Commissioner's Office provides [guidance and resources](#) on AI.

The Organisation for Economic Co-operation and Development provides a [framework](#), as well as information on principles and policies.





The best way to get started is by trying it out, something that's easy to do with generative AI such as ChatGPT or Bard. "See how it works, interact with the system," Wilson recommended. As part of the process, if the system utilizes an interactive language model, ask it to explain the logic it used to produce its answers. This is an option that's only available with a generative AI system, because it is language based, so it's worth giving it a try.

To gain a better understanding of systems that aren't as easily interfaceable as ChatGPT, Wilson recommends asking to shadow people within the organization who are using them. This can offer a practical understanding of how the system is being applied to different functions and uses. On a basic level, "find out if the people who are using it can explain it or describe how it is making a difference in the organization," Wilson said. "If they can't, this lack of expertise or gap in understanding on how the system works at a fundamental level may be an opportunity for improved utilization that internal audit can point out to the organization."

# CONCLUSION

---

"This is an exciting time for internal audit to play a leadership role in providing assurance for AI," according to the *Internal Auditor* magazine article.<sup>15</sup> The initial hype is expected to abate as organizations wrestle with actual understanding and implementation, but its impact will expand as people and businesses find more innovative ways to put it to work.<sup>16</sup> Now is the time for internal auditors to understand the opportunities and risks for their organizations so that they can offer valuable assurance and insights on AI initiatives.

---

<sup>15</sup> "Auditing Artificial Intelligence," James Bone, *Internal Auditor*, October 14, 2020.

<sup>16</sup> "Gartner Experts Answer the Top Generative AI Questions for Your Enterprise," Gartner, 2023.



## About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 235,000 global members and has awarded more than 190,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit [theiia.org](https://theiia.org).

## Disclaimer

The IIA publishes this document for informational and educational purposes only. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as peer-informed thought leadership. It is not formal IIA Guidance. The IIA recommends seeking independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

Global Knowledge Briefs are intended to address topics that are timely and relevant to a global internal audit audience, and each topic covered is vetted by members of The IIA's volunteer North American Content Advisory Committee. Subject-matter experts are primarily identified and selected from The IIA's list of Global Guidance Contributors.

To apply to be added to the Global Guidance Contributors list, email [Standards@theiia.org](mailto:Standards@theiia.org). To suggest topics for future Global Knowledge Briefs, email [Content@theiia.org](mailto:Content@theiia.org).

## Copyright

Copyright © 2023 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact [copyright@theiia.org](mailto:copyright@theiia.org).

July 2023



The Institute of  
Internal Auditors

### Global Headquarters

The Institute of Internal Auditors  
1035 Greenwood Blvd., Suite 401  
Lake Mary, FL 32746, USA  
Phone: +1-407-937-1111  
Fax: +1-407-937-1101