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

MONDAY, DECEMBER 11, 2023
9:00 AM

AGENCY HEADQUARTERS
BOARD ROOM
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91708
***A MUNICIPAL WATER DISTRICT**

VIEW THE MEETING LIVE ONLINE AT IEUA.ORG

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

CALL TO THE 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 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

1. ACTION ITEMS

A. MINUTES

Approve the Minutes of the September 11, 2023 Audit Committee meeting.

B. INTERNAL AUDIT CHARTER AND AUDIT COMMITTEE CHARTER

Staff recommends that the Committee/Board:
1. Approve the Audit Committee Charter and the Internal Audit Unit Charter; and
2. Direct staff to implement the charters.

2. INFORMATION ITEMS

A. IEUA FISCAL YEAR 2022/23 AUDITED ANNUAL COMPREHENSIVE FINANCIAL REPORT (WRITTEN/POWERPOINT)

B. 2023 REVIEW OF PURCHASING CARD PROGRAM INFORMATION TECHNOLOGY EQUIPMENT AND 2016 RECOMMENDATIONS (WRITTEN/POWERPOINT)

C. INTERNAL AUDIT QUALITY CONTROL REVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (WRITTEN)

D. INTERNAL AUDIT QUARTERLY STATUS REPORT FOR DECEMBER 2023 (WRITTEN)

3. AUDIT COMMITTEE ADVISOR COMMENTS

4. COMMITTEE MEMBER COMMENTS

5. COMMITTEE MEMBER REQUESTED FUTURE AGENDA ITEMS

ADJOURN

Declaration of Posting

I, Denise Garzaro, CMC, Board Secretary/Office Manager of the Inland Empire Utilities Agency*, a Municipal Water District, hereby certify that, per Government Code Section 54954.2, a copy of this agenda has been posted at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA and on the Agency's website at www.ieua.org at least seventy-two (72) hours prior to the meeting date and time above.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (909) 993-1736 or dgarzaro@ieua.org, 48 hours prior to the scheduled meeting so that IEUA can make reasonable arrangements to ensure accessibility.

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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

MONDAY, SEPTEMBER 11, 2023
9:00 A.M.

COMMITTEE MEMBERS PRESENT

Paul Hofer, Chair
Steven J. Elie, Director

STAFF PRESENT

Shivaji Deshmukh, General Manager
Christiana Daisy, Deputy General Manager
Kristine Day, Assistant General Manager
Deborah Berry, Controller
Jerry Burke, Director of Engineering
Brandon Gonzalez Contreras, Technology Specialist I
Warren Green, Manager of Contracts & Procurement
Don Hamlett, Director of Information Technology
Jennifer Hy-Luk, Executive Assistant
Randy Lee, Director of Finance
Sapna Nangia, Senior Internal Auditor
Dominic Palencia, Internal Auditor
Alyson Piguee, Director of External and Government Affairs
Teresa Velarde, Manager of Internal Audit
Kaytrine Vo, Internal Audit Intern

OTHERS PRESENT

Travis Hickey, Financial Advisor

STAFF PRESENT via Video/Teleconference

Denise Garzaro, Board Secretary/Office Manager
Monica Nelson, Administrative Assistant II
Wilson To, Technology Specialist II

Committee Chair Paul Hofer called the meeting to order at 9:00 a.m. There were no public comments received and no additions to the agenda.

1A. ACTION ITEM
The Committee approved the minutes of the July 10, 2023 Audit Committee meeting.

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

- 2023 Review of Agency's Purchasing Card Program – Food, Training and Travel Purchases
- 2023 Petty Cash Audit and Follow-up Review
- Progress Update for all Procure to Pay Audit Recommendations – Seventh Update
- Internal Audit Quarterly Status Report for September 2023

3. AUDIT COMMITTEE ADVISOR COMMENTS
Committee Advisor Travis Hickey commented on the increased interest in Artificial Intelligence and its potential impact on organizations.

4. COMMITTEE MEMBER COMMENTS
Committee Member Elie acknowledged the importance of September 11th and the impact it had on the nation.

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

ADJOURNMENT
With no further business, Committee Chair Hofer adjourned the meeting at 9:39 a.m. in honor and remembrance of the lives lost and the sacrifices made on September 11, 2001.

Respectfully submitted,

Jennifer Hy-Luk
Executive Assistant

*A Municipal Water District

APPROVED: DECEMBER 11, 2023

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

Date: December 11, 2023

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

Committee: Audit

Staff Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Charter and Audit Committee Charter

Executive Summary:

The Board approved charters require that the Internal Audit Unit (IA) perform periodic reviews of both the Audit Committee Charter and the IA Charter, and make recommendations for necessary updates and revisions. The Charters are presented in final form with no major proposed changes or edits.

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

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

Staff's Recommendation:

Staff recommends that the Committee/Board:
1. Approve the Audit Committee Charter and the Internal Audit Unit Charter; and
2. Direct staff to implement the charters.

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

Regional Sewerage   *Technical Committee (Y/N):* N

Policy Committee (Y/N): N

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 Department Charters.

Item No: 75

Environmental Determination:

Not Applicable

Attachments:

Attachment 1 - 2023 Audit Committee Charter
Attachment 2 - 2023 Internal Audit Unit Charter
Attachment 3 - PowerPoint

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 20, 2023

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

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

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

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Audit Committee Charter
Approved on December 20, 2023

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

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

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

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

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

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

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

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

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

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

➢ Review with the Manager of Internal Audit and the Agency's general counsel the results of their reviews of compliance monitoring with the Code of Conduct/Ethics Policy.

➢ Review the procedures for the receipt, retention, and treatment of complaints received by the Agency regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, the current status, and resolution if one has been reached.

➢ Review procedures for the confidential, anonymous submission by Agency employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.

➢ Inquire of Agency management, the Manager of Internal Audit, and the external auditors about significant risks or exposures facing the Agency. Assess the steps management has taken or proposes to take to communicate, manage, and minimize such risks to the Agency; and periodically review compliance with such steps.

➢ Review with the Manager of Internal Audit, and the external auditors:
  - The adequacy of the Agency's internal controls including computerized information system controls and security.
  - Any significant findings and recommendations of the Manager of Internal Audit, and the external auditors together with management's responses thereto.

Internal Audit Unit:
➢ Request that the Agency's Manager of Internal Audit prepare the Audit Committee's meeting agendas designed to ensure that all of the responsibilities of the Audit Committee as described herein are addressed at least once a year.

➢ Ensure there are no unjustified restrictions or limitations placed on the Internal Audit Unit.

➢ Review with the Board, General Manager, and the Manager of Internal Audit the Internal Audit Unit Charter, Annual Audit Plan, staffing, budget, and organizational reporting structure to ensure they meet the Committee's goals, objectives, and responsibilities to the Board and Agency management.

➢ Review and recommend to the Board the approval of the Internal Audit Unit's Annual Audit Plan and any significant changes that may occur during the year.

➢ Review, as needed, all internal audit reports, findings, and recommendations.

➢ Review and recommend to the Board the appointment, replacement, dismissal, or change in duties of the Manager of Internal Audit.

➢ Review the effectiveness of the Internal Audit Unit's function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards).*

➢ Conduct the Manager of Internal Audit performance appraisals and recommend Manager of Internal Audit merit increases and incentive compensation to the Board.

➢ Hold management accountable for the appropriate resolution of Internal Audit Unit's recommendations and ensure that disposition has been determined for Internal Audit Unit

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

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

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

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

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

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

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

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

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

MEETINGS
The Audit Committee shall meet no less than quarterly.

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 20, 2023

PURPOSE

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

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

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

MISSION

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 20, 2023

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

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

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

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

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

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

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

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

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 20, 2023

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

INDEPENDENCE

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

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

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

AUTHORITY

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

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

deviations from the approved Annual Audit Plan shall be reported to the Audit Committee in a timely manner or as soon as possible and to the Board at the next regularly scheduled Audit Committee meeting.

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

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

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

RESPONSIBILITIES

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 20, 2023

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

Internal Controls

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

INLAND EMPIRE UTILITIES AGENCY
Internal Audit Department Charter
Approved on December 20, 2023

<u>**Audit**</u>

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

<u>**Reporting**</u>

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

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

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

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

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

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

MANAGEMENT RESPONSIBILITIES

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

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

Internal Audit Charter & Audit Committee Charter

Teresa Velarde

Manager of Internal Audit

December 2023

Charters

Audit Committee Charter

- Purpose

- Composition, Compensation & Terms of Service

- Authority

- Responsibilities

- Ethical Conduct

- Meetings

Internal Audit Unit Charter

- Purpose

- Mission

- Values

- Accountability

- Independence

- Authority

- Responsibilities

- Standards of Ethical Conduct

- Management's Responsibilities

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Staff Recommendation:

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

2. Direct staff to implement the charters.

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

Date: December 11, 2023

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

Committee: Audit

Staff Contact: Kristine Day, Assistant General Manager

Subject: IEUA Fiscal Year 2022/23 Audited Annual Comprehensive Financial Report (Written/PowerPoint)

Executive Summary:

The Annual Comprehensive Financial Report (ACFR) for fiscal year ended June 30, 2023, was prepared in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and audited by Clifton Larson Allen LLP (CLA). It is anticipated CLA will issue an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2023, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements; however, the final opinion will not be provided until the ACFR is updated with some non-financial information.

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

Regional Sewerage   *Technical Committee (Y/N):* N

Policy Committee (Y/N): N

Environmental Determination:

Not Applicable

Attachments:

Attachment 1 - Background
Attachment 2 - PowerPoint

Item No: 176

Background

Subject: IEUA Fiscal Year (FY) 2022/23 Audited Annual Comprehensive Financial Report

FY 2022/23 Annual Comprehensive Financial Report

The Agency's Annual Comprehensive Financial Report (ACFR) for fiscal year ended June 30, 2023, was prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. To the best of staff's knowledge, the data presented is accurate in all material respects, and reported in a manner designed to fairly present the financial position and results of operations for the various Agency funds and account groups. Disclosures are included within the ACFR to enable the reader to gain an understanding of the Agency's financial activities. A copy of the Agency's ACFR will be available once the auditors complete their review.

FY 2022/23 Financial Highlights

Combined revenues and other funding sources for the fiscal year totaled $291,852,798 a decrease of $13,669,161 compared to the prior fiscal year. The following table presents a comparison of revenues and other funding sources by category for fiscal years 2021/22 and 2022/23.

Combined Revenues and Other Funding Sources by Category - All Funds						
For the Fiscal Year Ended June 30, 2023						
(With Comparative Totals for the Fiscal Year Ended June 30, 2022)						
Revenue & Other Funding Sources	2022/23		2021/22		Increase/(Decrease) from 2021/22	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Service Charges	$ 101,451,987	35%	$ 97,825,094	34%	$ 3,626,893	4%
Water Sales	30,516,248	10%	42,976,372	15%	(12,460,124)	(29)%
Recycled Water Sales	18,693,110	6%	19,642,939	7%	(949,829)	(5)%
Interest Income	8,905,153	3%	2,152,502	1%	6,752,651	314%
Property Tax Receipts	79,364,633	27%	71,584,856	25%	7,779,777	11%
Water Connection Fees	4,301,542	1%	8,749,472	3%	(4,447,930)	(51)%
Wastewater Capital Connection Fees	26,544,482	9%	35,216,803	12%	(8,672,321)	(25)%
Other Non-operating Revenues	14,338,319	5%	(774,161)	0%	15,112,480	(1952)%
Capital Grants	7,737,324	3%	12,338,671	4%	(4,601,347)	(37)%
Total Revenues & Contributions	$ 291,852,798	100%	$ 289,712,548	101%	$ 2,140,250	1%

Service Charges

Increase is primarily due to new adopted rates by the Agency Board of Directors for FY 2022/23, and an increase in the number of EDU units reported by contracting agencies.

Water Sales

Decrease is primarily due to lower deliveries from Metropolitan Water District of Southern California due to drought conditions which severely limited IEUA's ability to purchase imported water. Deliveries for FY 2022/23 were 36,029 acre-feet (AF) compared to 66,187 AF in FY 2021/22, a decrease of 30,158 AF.

Property Tax Receipts

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

Wastewater and Water Connection Fees

Wastewater connection fees were lower than the prior fiscal year. Wastewater connections fees were $26.5 million in FY 2022/23, with 3,462 new units compared to 4,767 units and $37.7 million in the prior fiscal year. The decrease in new connections reported by contracting agencies in FY 2022/23 is a result of less building activity in the region compared to prior year. Water connection fees were also lower than the prior fiscal year. Water connection fees were $4.3 million in FY 2022/23 compared to $8.7 million in FY 2022/23, with 1,125 new units reported in FY 2022/23 compared with 4,896 units reported the prior fiscal year.

Other Non-Operating Revenues

Increase is due to an increase in reimbursement for services and unrealized gain on long term investments.

Capital Grants

Decrease is due to the lower grant funding received from the California Water Commission Grants for the Chino Basin Program Early Project compared to last fiscal year.

Combined expenses for fiscal year ended June 30, 2023, totaled $198,098.953, a decrease of $1,714,610, compared to the prior fiscal year. The following table presents a comparison of expenses by category for fiscal years 2022/23 and 2021/22.

Combined Expenses by Category - All Funds						
For the Fiscal Year Ended June 30, 2023						
(With Comparative Totals for the Fiscal Year Ended June 30, 2022)						
Expense Category	2022/23		2021/22		Increase/(Decrease) from 2021/22	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF CHANGE
Water Purchases	$ 30,516,248	15%	$ 42,937,372	21%	$(12,421,124)	(29)%
Wastewater Collection	11,356,381	6%	10,294,319	5%	1,062,062	10%
Wastewater Treatment	27,816,531	14%	24,877,528	12%	2,939,003	12%
Wastewater Disposal	8,102,499	4%	12,145,857	6%	(4,043,358)	(33)%
Operations and Maintenance	8,091,771	4%	7,989,274	4%	102,497	1%
Administration and General	58,841,235	30%	39,369,646	20%	19,471,589	49%
Depreciation and Amortization	33,430,592	17%	35,090,949	18%	(1,660,357)	(5)%
Interest on Long-Term Debt	13,825,036	7%	14,048,286	7%	(223,250)	(2)%
Other Non-Operating Expenses	6,118,660	3%	13,060,332	7%	(6,941,672)	(53)%
Total Expenses	$198,098,953	100%	$199,813,563	100%	$ (1,714,610)	(0.9)%

The Agency's statement of net position for fiscal year ended June 30, 2022, reflects $1,071 million, an increase of $94 million compared to the prior fiscal year. This increase is primarily due to an increase in capital assets.

Imported Water Pass-Through Sales and Purchases

Imported water deliveries for FY 2022/23 were 35,992 acre feet (AF) compared to 66,187 AF reported in FY 2021/22, a decrease of 30,195 AF. The decrease is mainly due to lower deliveries from Metropolitan Water District of Southern California due to drought conditions in the beginning of the fiscal year.

Funding of Employee Retirement Liabilities

Consistent with the Board policy, the Agency makes contributions to fund the pension unfunded liabilities and other post-employment benefits (OPEB). Since the inception of the funding plan, cumulative additional contributions toward the unfunded liabilities of $45 million for pension and $15.0 million for OPEB have been made through fiscal year ended June 30, 2023.

As of June 30, 2023, based on the most recent actuarial valuation date, the OPEB plan is 100 percent funded with an actuarial accrued asset of $4,965,608.

The net pension liability measured as of June 30, 2023, using valuation date of June 30, 2022, was 82 percent funded at $4.5 million, in accordance with GASB 68. As of June 30, 2022, the Agency had no outstanding contributions to the pension plan required for the year ended June 30, 2023.

Work in Progress (WIP)

The number of open projects under the category of Work in Progress (WIP) for FY 2022/23 were 190 projects compared to 148 projects in FY 2021/22, an increase of 42 projects. WIP total cost increased to $460.0 million from $339.8 million mainly due to the construction of the RP-5 expansion.

Inter-Fund Transfers

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

In FY 2022/23, inter-fund transfers of $13.3 million were made to support debt service requirements, the Agency's pro-rata share of groundwater recharge O&M costs, and the allocation of water and wastewater connection fees to support capital project costs based upon information defined in 2015 rate and fee studies. The following tables summarize the Transfers In (Table 1) and Transfer Out (Table 2) by type and between Major and Non-Major funds.

Table 1. FY 2022/23 Transfers In

Transfer In								
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water Fund	Water Resources	Admin Services	Groundwater Recharge	Non-Reclaimable	
Debt Service	-	261,604	2,534,530	-	-	562,500	-	3,358,634
Total Capital Contribution	3,024,324	1,088,350	-	828608	3,089,074	191,484	468308	8,690,148
Operations Support	-	-	-	-	211,061	1,012,629	-	1,223,690
Total	3,024,324	1,349,954	2,534,530	828,608	3,300,135	1,766,613	468,308	13,272,472

Table 2. FY 2022/23 Transfers Out

Transfer Out								
	Major Funds				Non-Major Funds			Total
	Wastewater Capital	Wastewater Operations	Recycled Water Fund	Water Resources	Admin Services	Groundwater Recharge	Non-Reclaimable	
Debt Service	3,211,327	147,307		-	-	-	-	3,358,634
Total Capital Contribution	4,445,690	3,024,324	1,145,712	-	-	-	74,422	8,690,148
Operations Support		196,709	1,019,805				7,176	1,223,690
Total	7,657,017	3,368,340	2,165,517	-	-	-	81,598	13,272,472

Debt Service Inter-Fund Transfer $3.4 million

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

Capital Inter-Fund Transfer $8.7 million

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

Projects are assigned to the fund that will benefit from the investment. In some cases, where a project will benefit multiple funds, the project is assigned to a single fund to effectively track and monitor project budget and costs throughout its lifecycle. For these projects, actual expenditures are allocated amongst the funds based on their benefit share at the end of the fiscal year. In Fiscal Year 2022/23, inter-fund transfers from the Wastewater Operations fund to the Wastewater Capital fund recorded its share of cost for projects such as the RP-5 Expansion project.

Additionally, capital projects that support common Agency-wide activities are recorded in the Administrative Services fund. For Fiscal year 2022/23 inter-fund transfers to the Administrative Service fund from the Wastewater Capital, Wastewater Operations, Recycled Water, and Non-Reclaimable Wastewater funds supported projects, including roofing improvements to the Agency main buildings, Agency-wide HVAC repair, Agency vehicle replacements, and enhancement to the Agency's computer infrastructure network and cybersecurity.

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

In Fiscal Year 2022/23 water connection fees initially recorded in the Recycled Water fund supported projects like the Water Bank, the Chino Basin Program review and analysis, and water planning initiatives recorded in the Water Resources fund, as well as a small portion of the Recharge Master Plan Update (RMPU) and Administrative Services fund project costs.

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

Operation Support Inter-Fund Transfer $1.2 million

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

Inter-Fund Loan

To support cash flow needs for the implementation of the Recharge Master Plan Updates projects, the Recharge Water Fund requires an inter-fund loan pending receipt of State Revolving Fund Loan proceeds from the State Water Resources Control Board. The Recycled Water Fund will lend the Recharge Water Fund an amount not to exceed $10.1 million, as of June 30, 2023, with interest at the annual average LAIF Rate for a period of one year following the execution of the promissory note. The Recharge Water fund has outstanding receivables in amount of $13.6 million related to State loans and grants related to the Recharge Master Plan Update projects and will repay the interfund loan as soon as the Agency receive those proceeds.

External Auditors' Independent Audit

The Agency's independent audit firm, Clifton Larson Allen LLP (CLA), performed the annual financial audit. It is anticipated CLA they will issue an unmodified ("clean") opinion over the financial statements for the Fiscal Year ended June 30, 2023, indicating that the financial statements are presented fairly and in accordance with GAAP and free of material misstatements; however, the final opinion will not be available until some non-financial information included in ACFR is updated.

During their review, CLA found two material deficiencies in internal controls over financial reporting. In the prior year the Agency recognized grant revenue that was a pass-through grant related to the Chino Desalter Authority (CDA.) This grant revenue should have been recognized as a liability, pending receipt of funds from the State and billing from the CDA. As a result, grant revenue was overstated by $523,084. Additionally, in prior years the Agency classified project related expenses as work in progress, which were not capital expenditures and should have been expensed. As a result, expenses were understated by $2,768,636. The resulting restatement is reflected in the calculation of Fiscal Year 2022/23 ending net position. Management has reviewed these findings and has a corrective action plan to mitigate and strengthen these controls for the future.

Fiscal Year 2022/23 is the third audit completed by CLA in accordance with the contract approved by the Board of Directors on June 11, 2021, for three fiscal years beginning in FY 2020/21, including the option to extend the contract two fiscal years. The agreement covers the audit of the Inland Empire Utilities Agency (Agency) financial statements, review of the annual appropriations limit calculation, and audit of the Agency's federal awards in accordance with the Office of Management and Budget (Single Audit).

Internal Audit Department Review

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

Internal Audit staff's review did not include tests of transactions, or tests of the reliability of the totals and amounts included in the various categories, accounts, funds, statements, etc. Staff relies

on the work of the external auditors to test the reliability of the financial information reported. Staff's review is only one of an additional quality control to ensure a professional presentation, consistent with prior years.

Government Financial Officers Association (GFOA) ACFR Award

For the past twenty-four years, the Agency has applied for and received the GFOA ACFR Award for excellence in financial reporting. The deadline to submit the FY 2022/23 ACFR is December 31, 2023.

The IEUA FY 2022/23 Annual Comprehensive Financial Report is consistent with the Agency's Business Goal of Fiscal Responsibility in providing transparent communication of the Fiscal Year activity.

IEUA Fiscal Year 2022/23 Audited Annual Comprehensive Financial Report

Deborah Berry

Controller

December 2023

FY 2022/23 Financial Highlights

- **Increased total net position by $93.7 million:**
  - Operating activities: ($27) million
  - Non-operating activities: $113 million
  - Capital Grants: $7 million

- **Total net position as of 6/30/23 $1,071 million:**
  - $494 million net investment in capital assets
  - $218 million restricted assets
  - $359 million designated / unrestricted assets

- **Inter-fund transfers $13.3 million** (Note 15 to Financial Statements):
  - $3.4 million Debt service support
  - $8.7 million Capital support
  - $1.2 million Operations and Maintenance support

- **Inter-fund loan of $10.2 million**
  - From the Regional Wastewater Fund to the Recharge Water Fund, to support RMPU cash flow, until SRF loans agreements are completed.

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FY 2022/23 Revenues & Expenses

Total Revenues $292 Million

**Total Expenses &
Change in Net Position $292 Million**

Operating revenue:
- Water Sales $31
- Service Charges $101
- Recycled Water Sales $19
  Total Operating Revenue $151

Operating expense:
- Water Purchases $31
- Wastewater Treatment $47
- O&M and Support Services $67
- Depreciation and Amortization $33
  Total Operating Expense $178

Non-Operating revenue:
- Property Tax $79
- Connection Fees $31
- Capital Grants $8
- Other nonoperating revenues $23
 **Total Non-Operating Revenue $141**

Non-Operating Expense:
- Interest on long term debt $14
- Other nonoperating expenses $6
  Total Non-Operating Revenue $ 20

Change in Net Position: $94

Inland Empire Utilities Agency
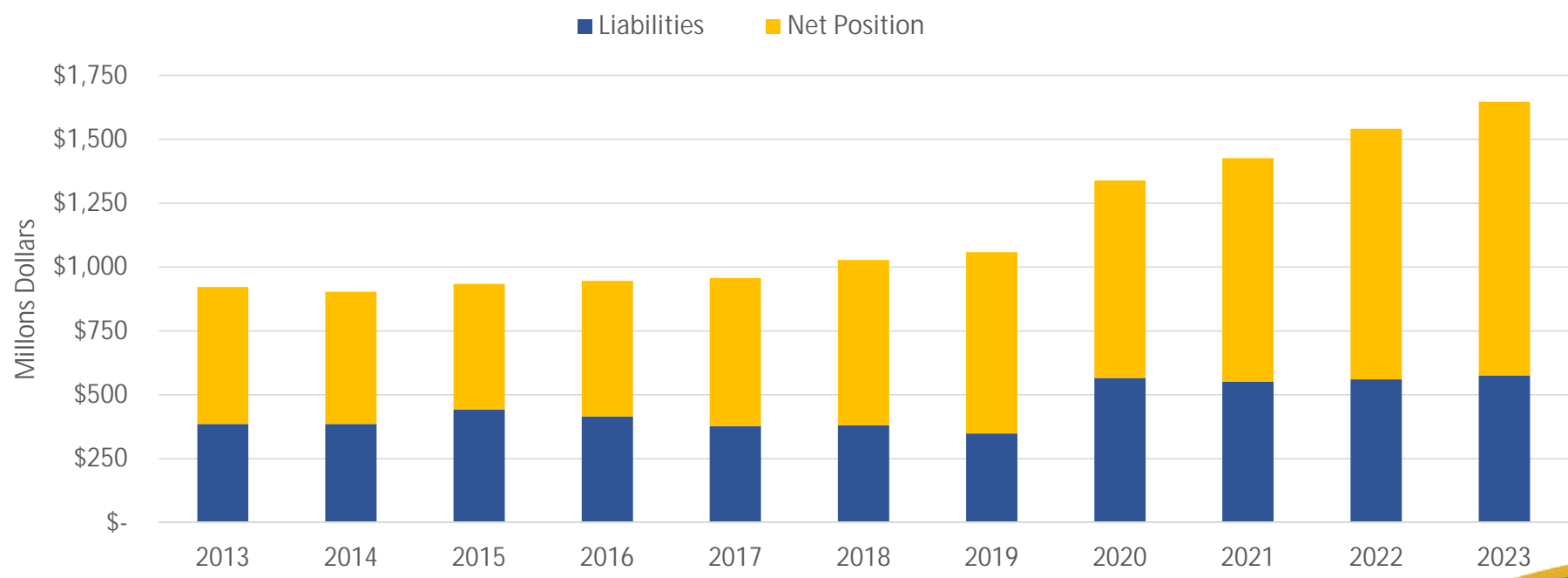A MUNICIPAL WATER DISTRICT

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Total Assets Increased $122 million from prior year

- Construction of new capital assets (RP-5 Expansion)
- Higher property tax and interest income

Legend: Capital Assets, net · Restricted Assets · Other Assets · Cash and Investments

4
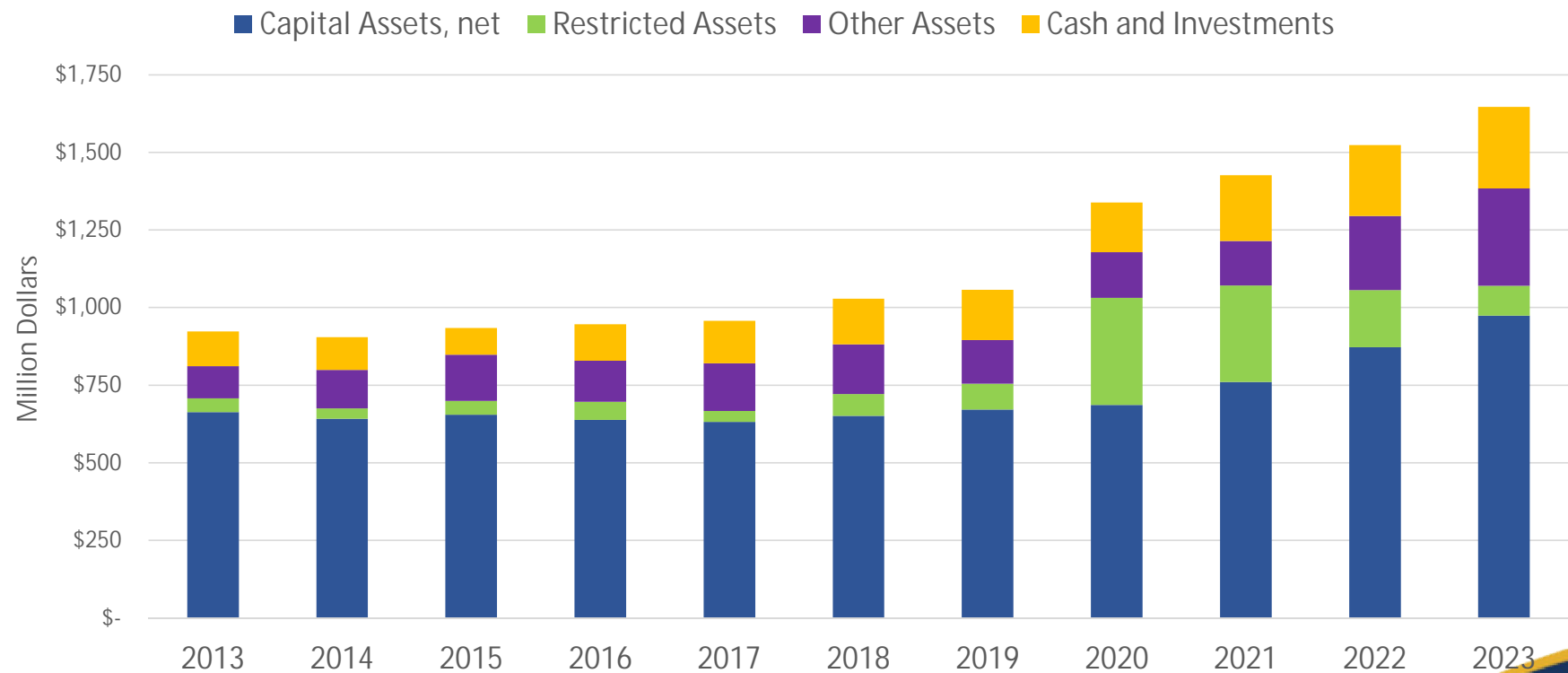
Total Liabilities and Net Position
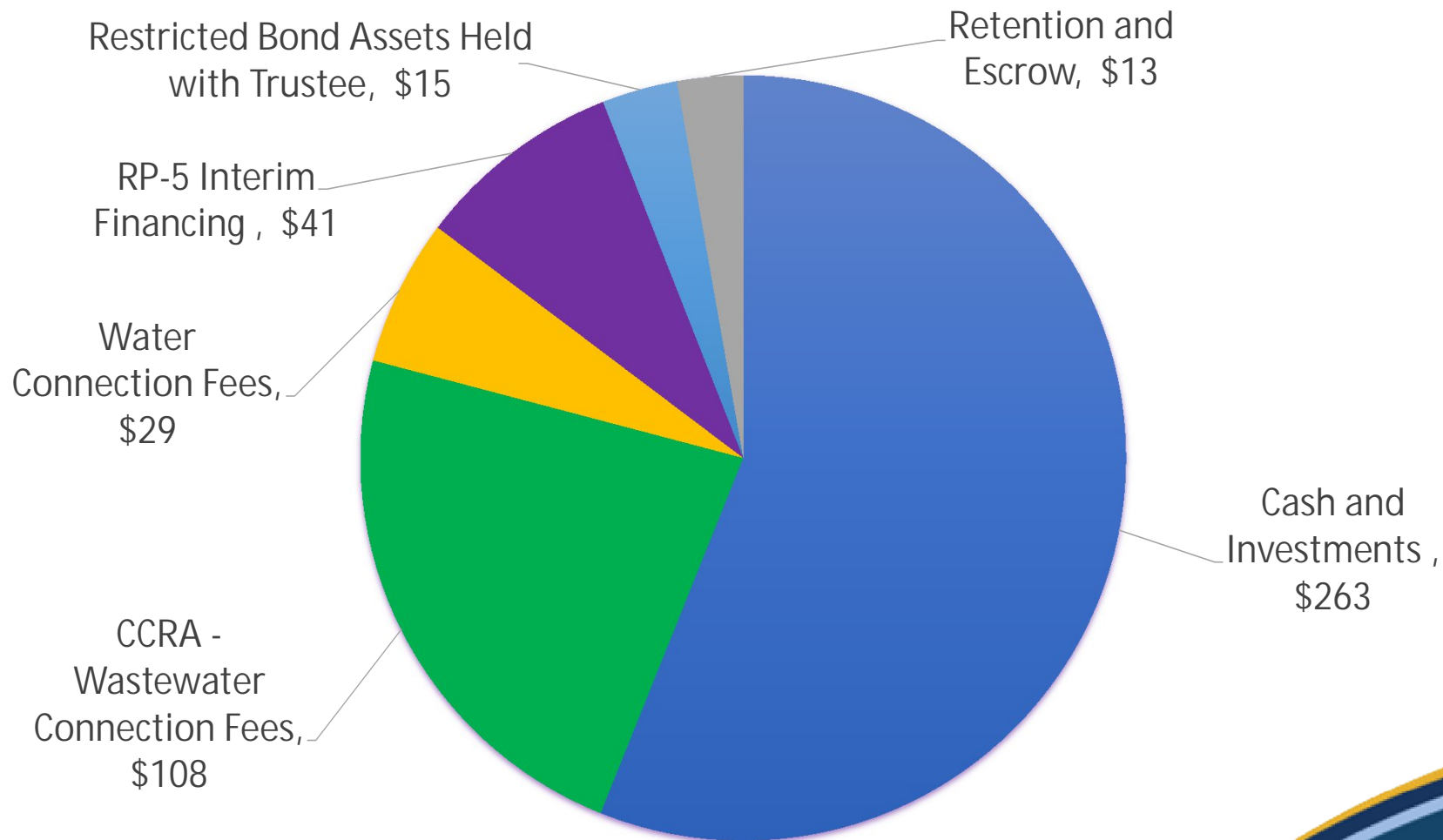
- $10.3 M net decrease in Long Term Debt
- $94 M increase in Net Position

Cash, Investments, and Restricted Deposits $468 Million

Restricted Bond Assets Held with Trustee, $15

RP-5 Interim Financing, $41

Water Connection Fees, $29

CCRA - Wastewater Connection Fees, $108

Retention and Escrow, $13

Cash and Investments, $263

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Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Questions?

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

Date: December 11, 2023

To: The Honorable Board of Directors

From: Teresa Velarde, Manager of Internal Audit

Committee: Audit

Staff Contact: Teresa Velarde, Manager of Internal Audit

Subject: 2023 Review of Purchasing Card Program Information Technology Equipment and 2016 Recommendations (Written/PowerPoint)

Executive Summary:

Internal Audit (IA) completed an audit of the purchases made by the Information Technology Department (IT) using the Purchasing Card (P-card). Additionally, IA completed a follow-up review of the outstanding recommendations provided in 2016. The objectives of the audit were to evaluate the internal controls over the P-card program, to determine if the purchases were made in accordance with the Procurement Ordinance, policies, and standard operating procedures. Specifically, the audit evaluated the department's processes for purchasing, tracking, inventorying, assigning, and monitoring of IT equipment.

For the twelve-month period reviewed, the IT Department processed approximately 600 P-card transactions and spent over $500,000 using P-cards. The audit identified opportunities to tighten internal controls and provides several recommendations in the following areas:

- **Accountability of IT equipment assets:** IA identified approximately 30 recent purchases totaling over $52,000, made using P-cards, that were not recorded in IT's asset inventory records. Assets purchased included laptops, computers, switches, a server, iPads and possibly specialized communication radios.
- **IT equipment purchased without IT approval:** IA identified 3 technology devices, totaling just over $2,000, a smart television and two printers, purchased on the P-cards by a different department. There was no coordination or approval from the IT Department as required by Agency Policy A-09 which states that all IT equipment or software should be coordinated through the Agency's IT Department to ensure standardization of equipment, approval to connect on to the Agency's network and ongoing maintenance and support of the IT equipment.
- **Capitalization guidelines:** Recent purchases of IT equipment assets have not been reported to Finance to ensure the Agency's capitalization guidelines are followed. The current capitalization guideline requires that computer equipment over $1,000 with a useful life greater than one year, must be capitalized. This guideline is documented in Note 1 of the Annual Comprehensive Financial Report (ACFR). Accounting guidance requires assets be capitalized when placed into service.
- **Expense account assignments:** IA noted 5 transactions, totaling $6,752 that could have been coded to a more appropriate expense account to accurately reflect the Agency's expenses. Department supervisors should carefully review the expense accounts selected by employees,

prior to approving the transactions to ensure all expenses are coded to the correct accounts.

- **Physical inventories of technology equipment are not performed:** Using the most current asset lists provided by IT, IA performed physical observations of the storage rooms for IT equipment (i.e., laptops, workstations, monitors) and the Operational Technology (OT) equipment (i.e., treatment plant related equipment). IA noted that there is no current process in place for IT staff to perform periodic physical inventories of the assets to verify the assets recorded in their asset records and determine if they are in good working condition.
- **Technology equipment asset records are incomplete:** IT's asset lists were missing key identifying information such as asset numbers, serial numbers and assigned locations were not current. Additionally, several assets are missing from the list because they were not recorded at the time of purchase. Without complete and accurate asset records that contain necessary key identifying information, the IT assets cannot be verified nor reconciled.
- **Reconciliations of IT assets records are not performed:** Currently, there is no process in place to reconcile the various asset lists for IT and OT equipment, from IT records to the Finance asset records. IA performed a reconciliation of the asset lists (IT's records to the list in the financial system (SAP) and noted the lists do not match (details are in the report). Therefore, it is not possible to determine the IT assets on-hand, or the correct value reported in financial statements.
- **Accurate technology equipment asset records:** Noted 160 assets are reported on both the IT asset list and the Finance asset list with no book value in the financial system (SAP) because they have been fully depreciated. The IT Department should validate the existence of the assets and determine if they are in good working condition or if they require disposal and removal from the financial assets, to ensure financial reports are accurate.
- **Agency Policy A-09 Computer and Electronic Policy (effective February 2015):** The policy provides guidelines for the purchase, use and maintenance of Agency computers and electronic equipment, including applications and software. A-09 appears to be outdated because it references the Technology Asset List (TAL), a Microsoft InfoPath database previously created to track all IT equipment. The TAL database is no longer used by the IT Department. The policy also does not mention newer electronics and technology items and processes.
- **IT Department SOPs:** The IT Department did not provide their department Standard Operating Procedures (SOPs) which documents the various processes related to IT equipment, such as the purchase, inventory, tracking, recording, assignment, retirement, and storage of IT equipment. Documenting processes serve as guidelines for staff and establish consistency in processes.
- **Supporting Documentation Requirements:** The audit identified instances where supporting documentation was missing in various areas or transactions. IA makes various recommendations to ensure there are current P-card agreements for all users, and any changes in credit limits be authorized and documented. Additionally, all users should be reminded of the requirements for transactions, including the requirements of the Procurement Ordinance.
- **2016 Follow-Up Review – IT Equipment – ISS and FAD :** Of the 8 outstanding recommendations from 2016, 7 recommendations are considered not implemented. They relate to ensuring there is a process in place to record, track, issue, and inventory IT assets. The recommendations also require Finance and IT work together to periodically review and reconcile IT asset records, to ensure financials assets are accurately recorded in the financial statements.

The report attached provides details of the audit observations and recommendations.

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

Approval

Regional Sewerage	*Technical Committee (Y/N):*
	Policy Committee (Y/N):

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 Charters.

Environmental Determination:

Not Applicable

Attachments:

Attachment 1 - 2023 Review of Agency's P-Card Program - IT Equipment and 2016 Recommendations
Attachment 2 - PowerPoint

Item No: 170

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

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DATE: December 4, 2023

TO: Shivaji Deshmukh
             General Manager

FROM: Teresa V. Velarde
             Manager of Internal Audit

SUBJECT: 2023 Review of Agency's Purchasing Card Program – Information Technology Equipment and 2016 Recommendations

Audit Authority

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (IA) has performed an audit of the purchases made by the Information Technology (IT) Department using the Purchasing Card (P-card). Additionally, IA completed a follow-up review of the outstanding recommendations provided in 2016. 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 the IA Charter.

Audit Objectives

The objectives of the overall P-card Audit were to evaluate the internal controls over the Agency's P-card program, to determine if the purchases were made in accordance with the Agency's Procurement Ordinance, policies, and standard operating procedures. The specific audit objectives were to:

- Determine compliance with Agency Procurement Ordinance Number 110
- Determine if Agency policies and procedures are established and followed
- Evaluate IT transactions to determine if purchases were properly approved
- Determine if IT purchases were coded to appropriate financial accounts
- Perform physical observations of storage areas
- Analyze purchase transactions and related supporting documentation
- Evaluate processes for the accountability, inventory and issuance of IT equipment
- Identify opportunities for improvements

Water Smart - Thinking in Terms of Tomorrow

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

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IA will perform the P-card audit in multiple phases to provide a more comprehensive review of specific areas. To-date, IA has issued the following audit report:

- <u>2023 Review of Agency's Purchasing Card Program – Food, Training, and Travel Purchases (dated August 31, 2023)</u>. This audit report discussed the Agency's participation in the State's Purchasing Card program and evaluated the purchases for food, travel, and training on the Agency's P-cards. IA provided 12 audit recommendations to the P-card administration team within the Contracts and Procurement (CAP) unit and the Finance Department.

An audit report will be finalized after the completion for each area reviewed.

Audit Results – Executive Summary

The IT Department utilizes the P-cards to purchase IT software and hardware items for both IEUA and Inland Empire Regional Composting Authority (IERCA). The audit identified opportunities to strengthen internal controls and improve processes for the tracking, accountability, issuance, and capitalization of the IT purchases made with the P-card. The audit provides 23 recommendations. Details of the observations and recommendations are included in the report that follows. The bullet points below provide a summary of the audit results:

- **Accountability of IT equipment assets**: IA identified approximately 30 recent purchases totaling over $52,000, made on the Agency P-cards, that were not recorded in IT's internal asset inventory records that should have been. Assets purchased included laptops, computers, switches, a server, iPads and possibly specialized communication radios.

- **IT equipment purchased without IT approval**: IA identified 3 technology devices, totaling just over $2,000, a smart television and two printers that were purchased on the P-cards by a different department. There was no coordination or approval from the IT Department as required by Agency Policy A-09 which states that all IT equipment or software should be coordinated through the Agency's IT Department to ensure standardization of equipment, approval to connect on to the Agency's network and ongoing maintenance and support of the IT equipment.

- **Capitalization guidelines**: Recent purchases of IT equipment assets have not been reported to Finance to ensure the Agency's capitalization guidelines are followed. The current capitalization guideline requires that computer equipment over $1,000 with a useful life greater than one year, must be capitalized. This guideline is documented in Note 1 of the FY 2021/22 Annual Comprehensive Financial Report (ACFR). According to accounting guidance, assets must be capitalized when placed into service.

- **Expense account assignments**: IA noted 5 transactions, totaling $6,752 that could have been coded to a more appropriate expense account to accurately reflect the Agency's expenses. Department supervisors should carefully review the expense accounts selected by employees, prior to approving the transactions to ensure all expenses are coded to the correct accounts.

- **Physical inventories of technology equipment are not performed:** IA performed physical observations of the storage rooms for IT equipment (i.e., laptops, workstations, monitors) and the Operational Technology (OT) equipment (i.e., treatment plant related equipment). IA noted that there is no current process in place for IT staff to perform periodic physical inventories of the assets to verify if the assets are recorded in their internal asset records and determine if they are in good working condition.

- **Technology equipment asset records are incomplete:** IT's asset lists were missing key identifying information such as asset numbers, serial numbers and assigned locations were not current. Additionally, several assets are missing from the list because they were not recorded at the time of purchase. Without complete and accurate asset records that contain necessary key identifying information, the IT assets cannot be verified nor reconciled.

- **Reconciliations of IT assets records are not performed**: Currently, there is no process in place to reconcile the various asset lists for IT and OT equipment, from IT records to the Finance asset records. IA performed a reconciliation of the asset lists (IT's records to the list in the financial system (SAP)) and noted the lists do not match (details are in the report). Therefore, it is not possible to determine the IT assets on-hand, or the value reported in financial statements.

- **Accurate technology equipment asset records**: Noted 160 assets are reported on both the IT asset list and the Finance asset list with no book value in the financial system (SAP) because they were fully depreciated. The IT Department should validate the existence of the assets and determine if they are in good working condition or if they require disposal and removal from the financial asset list, to ensure financial reports are accurate.

- **Agency Policy A-09**: Agency's Policy A-09 *Computer and Electronic Policy (effective February 2015).* The policy provides guidelines for the purchase, use and maintenance of Agency computers and electronic equipment, including applications and software. A-09 appears to be outdated because it references the Technology Asset List (TAL), a Microsoft InfoPath database previously created to track all IT equipment. The TAL database is no longer used by the IT Department and there has not been a replacement process implemented. The policy also does not mention newer electronics and technology items and processes.

- **IT Department SOPs**: The IT Department does not have documented Standard Operating Procedures (SOPs) to document the various processes related to IT equipment, such as the purchase, inventory, tracking, recording, assignment, retirement, and storage of IT equipment. Documenting processes serve as guidelines for staff and establish consistency in processes.

- **P-card agreements**: Both the *P-card Pilot Program Policy* and *Agency Policy A-89* require the cardholder to sign an agreement to be issued a P-card. IA reviewed the P-card agreements for staff in the IT Department. IA noted some agreements were missing when requested an signed as a result of this audit, even though the P-cards had already been issued. There should be a periodic review to ensure that all P-Card users have a current agreement on file.

- **Single transaction limit**: IA identified P-card transactions that were greater than the cardholder's authorized single transaction limit. The limits were increased to pay for IT purchases, and then reduced to their original authorized spending parameters. In some instances, there was no documented support to approve the credit limit increase to ensure there was authorization from the direct supervisor.

- **2016 Follow-Up Review – Information Technology Equipment – ISS**: Of the 8 outstanding recommendations from 2016, 7 recommendations are considered not implemented. They relate to ensuring there is a process in place to record, track, issue, and inventory IT assets. The recommendations also require Finance and IT work together to periodically review and reconcile IT asset records, to ensure financials assets are accurately recorded in the financial statements.

Where possible, the departments' responses have been incorporated.

Acknowledgements
IA would like to extend our appreciation to the staff who assisted us during this review, including staff from IT, CAP and Finance under the Administration Division. The observations and recommendations in this report were shared on November 21 and 28, 2023, and 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 – Information Technology Equipment and 2016 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.

TV:sn:dp

Background

According to the Agency's financial system (SAP), the Agency's IT equipment currently has an acquisition value of approximately $38 million and a book value of approximately $3 million. The IT equipment includes assets assigned to Agency employees and those used as part of the operating system to manage the wastewater treatment plants.

As part of the Agency's P-card expansion program, all IT staff received a P-card for the purpose of making necessary purchases. As of October 23, 2023, there were a total of 24 P-cards issued, 2 department cards and 22 cards issued to staff.

IT Department P-card spending summary

From the US Bank Access® Online system, IA downloaded a report showing all Agency P-card transactions for the 12-month period from September 1, 2022, to August 31, 2023. For the 12-month period, there were 6,029 transactions processed for IEUA only, totaling $2,399,254. For the same period, the IT Department's P-card transactions were 595, totaling just over $500,000. The purchases included IT computer equipment, accessories, peripherals, network equipment, hardware components, licenses, software services, travel expenses, etc. The table below shows the spending summary:

IT P-card Transactions Only *(includes both IEUA and IERCA)* Breakdown of transactions by Amount Spent September 1, 2022, to August 31, 2023		
Range of dollar amount of the P-card transaction	**Number of transactions**	**Total Dollar Amount**
Over $10,000	11	$ 174,816
Between $5,000 and $9,999	13	106,966
Between $1,000 and $4,999	83	153,489
Below $1,000	488	73,213
Totals	**595**	**$ 508,484**

Source: US Bank Access® Online, Transaction Detail Report, IT Department P-cards and IEUA IT staff P-cards only.

During the 12-month review period, Microsoft was the top vendor in terms of dollar amounts spent. These transactions represent monthly reoccurring charges for Microsoft Azure services, which is a cloud computing platform. The second highest vendor was Verizon Wireless, for costs related to data communication services and equipment purchases for Agency issued phones and iPads that require connectivity.

Top 10 Vendors (in terms of dollar amounts charged to P-cards) September 1, 2022-August 31, 2023		
Merchant Name	**Description**	**Dollar amount**
Microsoft	Purchase and monthly usage charges for Microsoft Azure Infrastructure Services	$112,253
Verizon Wireless	Telecommunication Services includes usage (i.e., cell and data plans) and equipment charges (i.e., iPads and other items)	$109,954

Kambrian Corporation	Software licenses and support subscriptions	$23,431
Dell Technologies	Laptops, desktop workstations, and other computer peripherals and accessories	$22,722
Duo Security LLC	Cloud-based authentication service for online accounts	$13,816
GovernmentJobs.com	Subscription for software used by HR	$12,719
Zones LLC	Annual support subscription for Office365	$10,840
OSIsoft LLC	Conference registration fees	$8,545
Stormwind LLC	Educational and training services	$8,330
Royal Industrial Solution	E-learning software subscription for Agency staff	$8,290
Totals		**$330,901**

Source: US Bank Access® Online system. Account Spend Analysis report generated on September 21,2023.

During the 12-month period, the top 10 spending categories, as categorized by the US Bank Access® Online system, were as follows:

Top 10 Vendors by Merchant Category Code September 1, 2022- August 31, 2023			
Merchant Category Code Description	**Vendors**	**Number of Transactions**	**Dollar amount**
Wholesale Computers	Accelerated Technologies Laboratories Inc., CDCE Inc, CodeTwo, Dell Technologies, Fujitsu Computer Product, Micorage, Microsoft, Trimble, Zones Inc.	53	$187,107
Data & Telecommunication Service Providers and other communication services	Verizon Wireless, AT&T, 2N (Axis Company)	27	$112,770
Computer Software Stores	Adobe Inc., Atlassian Corp, Bitwarden Inc, ClickSend Business Communication, VMware Inc., Grammarly Inc., File Transfer Protocol (Hosted FTP), NeoGov, Office Timeline LLC, Osi Software LLC, Smart Sheet Inc., Solarwinds Corp.	50	$35,091
Book Stores	Amazon.com Inc.	176	$30,012
Computer Repair/Main	Kambrian Corp.	5	$23,431
Computer and Data Process	Duo Security LLC, Periscope Intermediate Corp.	16	$14,496
Electronic Stores	Apple.com, Best Buy.com, Hard Disk Direct, Zasio Enterprises.	17	$10,720
Schools/Educational Schools	StormWind LLC.	1	$8,330
Wholesale Electronic Parts	Royal Industrial Solutions.	3	$8,290
Membership Organizations	Government Financial Office Association, MISAC Conference, SAPinsider	10	$7,510
Totals		**358**	**$437,756**

Sources: US Bank Access® Online system. Account Spend Analysis report generated on September 21,2023.

IT Projects Open in SAP

The Agency utilizes project-based budgeting and accounting to plan, purchase, replace, invest, and improve the Agency's equipment and facilities. Using this method, the IT Department purchases end-user IT and treatment plant-related equipment. In SAP, the IT Department has 18 open projects where a total of $2.4 million has been expended or capitalized. See below for more information.

Project Number	Project Name	Description	Asset Acquisition Amount	Asset Recorded Date
IS16021	SAP Roadmap and Strategy	Assistance to the Agency in the implementation of additional SAP functionalities and capabilities.	$ 36,721	8/31/2019
IS19007	Business Network Cybersecurity Project	Implementation of the network segmentation as a security measure to help prevent unauthorized access to critical network services.	$16,878	10/31/2018
IS20003	BIZ Infrastructure Replacement Project	Purchase, configuration, and installation of new hardware for eighty workstations and four servers to comply with a Board resolution.	$ 454,355	7/31/2019
IS20006	BIZ New workstations	Project to provide funding of purchasing new technology for new or unplanned Agency staff.	$ 39,372	9/30/2019
IS20007	Control System Enterprise Historian Enhancement	Predictive Insights system access, manual data collection by Operations staff, and Universal Font Library connector to import Foxboro historical data.	$108,275	10/31/2019
IS20009	Control Systems Enhancement Projects	Replace Horizon View with Thin Manager to CCWRF.	$ 25,907	9/30/2019
IS20012	BIZ Backup SAN	New hardware to allow backup copies of Laserfiche and Agency internal data at RP-1	$ 17,170	11/30/2019
IS20016	BIZ Board Room Wireless Control	Purchase of a wireless panel to allow IT staff to control audio/video equipment in the Board room. Project involves purchase, coordination, and installation of new technology equipment.	$ 4,941	2/29/2020
IS21008	GWR Infrastructure Replacement Project	Replacement of routers and switches ensuring performance and reliability.	$14,015	2/28/2021
IS21022	BIZ Cybersecurity Project (Assessment)	Consultant based assessment on cybersecurity improvements to help determine effectiveness and to develop an incident response plan.	$ 24,048	6/30/2021
IS22003	Information Technology Infrastructure Replacement Project	Purchase, configure, and install new hardware. Retire old hardware. Eighty workstations will be replaced and four servers. A UPS will be purchased and installed to replace one of the Business network servers rooms.	$ 68,397	2/28/2022
IS22004	Information Technology Infrastructure Assets Replacement	Purchase replacement personal computers (PCs), Laptops, Servers and other network switch infrastructure that have reached the end of useful life. Year 1; replace 5 servers, 1 fiber switch and 80 Laptops/PCs. Year 2; replace 3 servers, 1 switch and 1 HP 3PAR SAN (Storage Area Network) and 80 laptops/PCs.	$ 624,869	7/31/2021
IS22005	RW / GWR SCADA Infrastructure Replacement	RW / GWR SCADA Infrastructure Replacement	$ 61,222	8/31/2022
IS22006	SCADA Network Infrastructure Replacement	Servers must be replaced every five years and network switches every eight years.	$ 496,851	9/30/2021
IS22007	RP-1 and RP-2 DCS Upgrade	Replaced 3 DCS Servers and Software at RP-1. Replace 1 DCS server and 1 workstation at RP-2. Move control from 3 obsolete control processors to newer equipment which is existing at RP-1.	$ 292,228	3/31/2022
IS22008	Operations Electronic Logbook	Purchase software and server resources. Configuration, setup, and training.	$ 38,089	3/31/2023
IS22009	Recycled Water Asset Management Project	As part of the Asset Management Program, the project funding will provide the resources in the form of IEUA staffing and specialized consultants or contractors to develop and gather the necessary condition of assets to forecast, budget, and implement the replacement and/or repair of critical assets within the Recycled Water Systems.	$ 57,089	2/28/2022
IS23002	SAP User Licenses	Purchase 15 add'l SAP Limited Professional Licenses, needed to perform various functions in SAP.	$ 103,950	1/31/2023

Source: Dollar amounts as of October 11, 2023. FY 2021/22 and 2022/23, FY 2019/20 and 2020/21, and FY 2017/18 and 2018/19 Operating and Capital Program Budget documents.

fIT Department – services provided

According to the FY 2023/24 and 2024/25 Operating and Capital Program Budget (Budget document), the IT Department (within the Administration Division) is separated into two units, Information Technology and Operations Technology, and provides the following services:

DESCRIPTION AND PURPOSE

Information Technology provides enterprise technology services and is comprised of two units, Operations Technology (OT) and Information Services (IS).

The Operations Technology (OT) Unit supports and enhances the Agency's Supervisory Control and Data Acquisition (SCADA) and Distributed Control System (DCS) which includes Human Machine Interface (HMI's), Historians, Programmable Logic Controllers (PLCs), Input/output (I/O) communication, data analytics and reporting services. The OT team also enhances and supports the Agency's network and communications infrastructure, including Email, Network Communications, Cloud Services, and Wireless services. Working closely with the Information Security Officer, the OT Unit provides strong cyber security detection, protection, response, and recovery capabilities for the Agency's critical infrastructure services.

The Information Services (IS) Unit supports and enhances the Agency's business system solution, including enhancement and support of the Agency's core enterprise applications, such as Enterprise Resource Planning (ERP), Computerized Maintenance Management System (CMMS) Geographic Information Services (GIS), and Enterprise Content Management System (ECMS). The IS Unit supports business process improvement and efficiency through collaboration with departments, units, and stakeholders to develop custom applications, reports, dashboards, and integration with new and innovative solutions. The IS Unit maintains the Agency's user technology and provides user technical support and training.

Spending limits for IT staff P-cards are shown below:

IT Staff Spending Limit as of October 23, 2023		
Number of Card Holders	**Account Credit Limit**	**Single Purchase Limit**
21	$10,000	$5,000
1	$20,000	$10,000
1 *(for IEUA purchases)*	$50,000	$20,000
1 *(for IERCA purchases)*	$10,000	$5,000
Total Number of P-cards Issued 24		

Source: US Bank Access® Online system. Cardholder Account Profile review on October 23, 2023.

Types of IT Purchases

According to IT Department, P-cards can be used to purchase and pay for the following:

Types of items that can be purchased on IT staff's P-cards	
Category	**Description**
Low-value items	small-scale or routine purchases/acquisitions that do not require extensive approvals. Examples: keyboards, external hard drives, and other accessories
Peripherals	Peripherals like monitors, printers, scanners, and webcams (generally considered standard computer equipment)
Maintenance and Repairs	minor maintenance or repair parts for computer equipment, such as replacement cables, power supplies, or memory modules
Small-Scale Hardware	components like RAM upgrades, graphics cards, or solid-state drives as long as they are within the cardholder's authorized spending limits
Training and Educational Software	educational software or online courses that are necessary for employee training and development
Travel and Conferences	registration fees for training and conferences, travel expenses (i.e., airfare, hotel/lodging, transportation services, meals, etc.)

Types of items that can be purchased on the IT Department P-card	
Category	**Description**
Software Licenses	operating systems, productivity software, development tools, security software (under $10,000)
Hardware Components	memory, hard drives, graphics cards, processors, or other components for system upgrades or maintenance (under $10,000)
Network Equipment	routers, switches, access points, and cables that are necessary for network infrastructure maintenance or expansion
Computer Accessories	items like monitors, keyboards, mice, docking stations, or other peripherals needed for workstations
Cloud Services	services and subscriptions for hosting, storage, and software as a service (SaaS) application
Maintenance and Support Contracts	for hardware and software, and these contracts may include updates, technical support, and warranties
Security Software	purchases related to cybersecurity, such as antivirus software, firewall licenses, and intrusion detection/prevention systems
Data Backup and Recovery Services	data backup and recovery services needed to ensure data integrity and business continuity
Software Development Tools	tools and licenses for development environments, version control systems, and testing tools
IT Training and Certification	training courses, certifications, and educational materials to improve skill sets and expertise
Project Management Software	software used for project management and collaboration
IT Supplies	general IT supplies like cables, connectors, adapters, and other accessories that are essential for day-to-day operations

Purchases can be for one-time or reoccurring charges and be made on either the individual IT staff cards or the department P-cards.
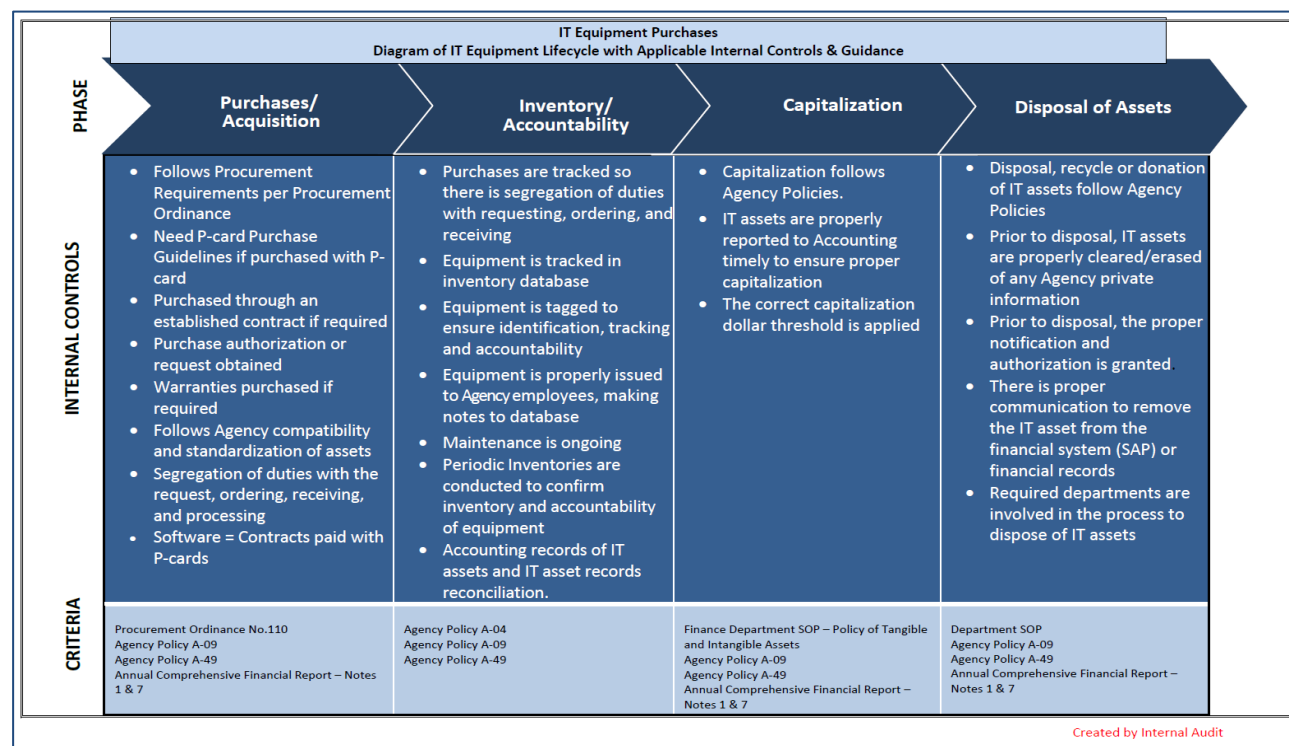
IT Policies

IA discussed the existing Agency policies with staff from IT, Finance and CAP. It was agreed that, for the purpose of this internal audit, the following would be used as criteria and the most current guidelines to evaluate the processes and the purchases made.

Agency Policies			
Type of Document	**Number**	**Name/Title**	**Effective date/ Revision date**
Draft Policy	*No Number assigned*	*P-CARD Pilot Program Policy*	*August 2022*
Agency Ordinance	110	Procurement Ordinance	September 21, 2022 (adopted)
Agency Policy	A-89	Procurement Card Program	January 26, 2016
Annual Comprehensive Financial Report, Note 1	FY 2021/22	Capitalization threshold – Computer equipment $1,000 *(Notes to the Basic Financial Statements, Note 1: Summary of Significant Accounting Policies Organization and Summary of Significant Accounting Policies, Section: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position, Capital Assets). And Note 7*	FY 2021/22
Leveraged Procurement Agreement	7-20-99-42	California Participating Addendum *(Term ends December 31, 2025)*	January 1, 2021
Department SOP	FA PR – 01	Policy of Tangible and Intangible Assets – SAP FY 20/21	July 1, 2020
Agency Policy	A-09	Computer and Electronics Policy	February 20, 2015

Source: Draft P-card Policy provided by the P-card Administrator; Agency Policies are found on the Agency's intranet, and Department SOP was provided by the department. It was agreed during initial audit meetings that these are the most current policies that apply.

Below is a diagram, documented by IA, to highlight the various internal controls and Agency policies that apply to each phase of technology equipment:

IT Equipment Purchases
Diagram of IT Equipment Lifecycle with Applicable Internal Controls & Guidance

PHASE

Purchases/ Acquisition	Inventory/ Accountability	Capitalization	Disposal of Assets

INTERNAL CONTROLS

- Follows Procurement Requirements per Procurement Ordinance
- Need P-card Purchase Guidelines if purchased with P-card
- Purchased through an established contract if required
- Purchase authorization or request obtained
- Warranties purchased if required
- Follows Agency compatibility and standardization of assets
- Segregation of duties with the request, ordering, receiving, and processing
- Software = Contracts paid with P-cards

- Purchases are tracked so there is segregation of duties with requesting, ordering, and receiving
- Equipment is tracked in inventory database
- Equipment is tagged to ensure identification, tracking and accountability
- Equipment is properly issued to Agency employees, making notes to database
- Maintenance is ongoing
- Periodic Inventories are conducted to confirm inventory and accountability of equipment
- Accounting records of IT assets and IT asset records reconciliation.

- Capitalization follows Agency Policies.
- IT assets are properly reported to Accounting timely to ensure proper capitalization
- The correct capitalization dollar threshold is applied

- Disposal, recycle or donation of IT assets follow Agency Policies
- Prior to disposal, IT assets are properly cleared/erased of any Agency private information
- Prior to disposal, the proper notification and authorization is granted
- There is proper communication to remove the IT asset from the financial system (SAP) or financial records
- Required departments are involved in the process to dispose of IT assets

CRITERIA

| Procurement Ordinance No.110 Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7 | Agency Policy A-04 Agency Policy A-09 Agency Policy A-49 | Finance Department SOP – Policy of Tangible and Intangible Assets Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7 | Department SOP Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7 |

Created by Internal Audit

Observations and Recommendations

The audit identified areas that require attention and opportunities to improve processes. IA provides recommendations to enhance the accountability of the IT equipment purchased with the P-cards, including inventory, tracking, capitalizing, and reconciling of IT equipment. The table that follows provides a list of the observations and recommendations, along with the results of the 2016 recommendations.

Observation/Finding	Recommendations	Impact/Effect of the Recommendation
IT purchases on the P-card:		
P-card agreements IA requested a copy of all the IT staff P-card agreements to determine if the agreements had been signed by the employee prior to the cards being issued and to review the different authorization spending limits. IA noted that 4 of the 24 P-card agreements were signed in September or October 2023, several months, and in two cases, several years after the employee was issued the P-card. According to the P-card team, there are at least 2 cardholders that were under the prior P-card program (prior to the fall of 2022), and the agreements were **signed at that time** when the card was initially issued. The P-card team stated that the agreements were either lost due to the transition of the program, IT equipment issues or not retained when the P-card Administrator role changed. Additionally, the P-card team, had previously reported in our prior audit that the goals of the program was to roll out the P-card program and issue the cards out to employees. As a result of this review, the P-card team plans to obtain signed agreements for all current cardholders. Both the Draft P-card Pilot Program Policy dated August 2022 and Agency Policy A-89 Procurement Card Program, dated January 2016 require the cardholder to sign the agreement as part of being issued a P-card. When IA requested the P-card agreements for review, the P-card team could not locate the agreements, it appears the *4 agreements were obtained and signed during this audit*.	1. The P-card team should review all P-card agreements to ensure there is a complete, signed agreement for all cardholders and ensure the agreement is retained in permanent records and made available upon request in the event of future internal or external reviews.	Ensure there is a method to periodically review that all P-cards issued have the appropriate approval and signed agreement in place and are available for audit trail and requests.
P-card transactions above the single transaction limit IA selected for review 21 of the 24 P-card transactions that were greater than $5,000 during the 12-month period, which is the single transaction limit or threshold (STL) for most of the IT staff. IA noted the following: • 2 transactions were above the STL and had no documentation (i.e., approvals or email justification)	2. The P-card team should take the lead to provide clear information and guidelines related to the requirements for what documentation should be	Ensure there are clear, documented guidelines, internal controls, and processes in place to set limits for transactions. Ensure there is a clear trail for authorizations

attached that showed the STL increase was approved.

Transaction date	Vendor Name	STL	P-card Transaction Amount	Documentation supporting the spending limit increase was or was not included in US Bank
3/1/2023	Zones	$5,000	$ 6,276	No
3/21/2023	Stormwind LLC	$5,000	$ 8,330	No

On November 6, 2023, the P-card team launched the "P-card Resource Center" on the Agency's intranet. This is a comprehensive webpage that provides information and resources related to the P-card, including an online form for the cardholder to request an increase in their single or monthly spending limits and can provide the necessary information (i.e., dates, dollar amounts, justification, and management approvals).

Additionally, the P-card team is now using the Teams share drive to record and track all incoming requests for an increase in either the single transaction limit or monthly account credit limit. Each request must be approved by the cardholder's supervisor or manager. Furthermore, the request for a temporary or permanent increase will be reviewed and approved by the Manager of Contracts and Procurement to ensure compliance with the Procurement Ordinance, along with approval of the P-card Administrator.

uploaded and attached in the US Bank Access® Online system or where it should be retained and saved when the single transaction limit or monthly account credit limit is increased, or in the event of other exceptions. This documentation should serve to demonstrate that there were sufficient approvals for the increase made by the P-card Administrator or when exceptions granted.

when there are increases or exceptions. This will ensure there is consistency, clear expectations, and sufficient controls to prevent card misuse or override of guidelines and internal controls.

Invoice was not uploaded to support the transaction
One of the 60 IT P-card transactions selected for review, one did not have the invoice uploaded as supporting documentation in the US Bank Access® Online system. Only the sole source justification was uploaded.

Transaction date	Vendor Name	P-card Transaction Amount	Purpose of Transaction
01/16/2023	Microsoft	$10,188.09	Microsoft Azure Infrastructure Services

All P-card transactions must be fully supported with receipts of purchases.

3. The P-card team should take the lead to communicate to all P-card users to ensure they review and verify all transactions have the necessary supporting documentation uploaded in the system.

All Agency purchases must be supported with documentation to support the purchase and to demonstrate the purchase was for Agency-related business and purchases were appropriate.

General ledger account assignment
Five of the 60 items selected for detailed review, totaling $$6,752 were assigned general ledger accounts, where a different general ledger account could have been assigned, as follows:
- **$118.51** (Dell Technologies), Date: 3/17/2023 – assigned to GL account number 560060 (Equipment), more appropriate account would have been 512710 (Equipment Maintenance and Supplies).

4. IT Department management, before approving purchase transactions in the P-card US Bank Access® Online system, should review to ensure staff apply expenses to the most appropriate general ledger accounts that should be used for P-card transactions. Approvers should review all transactions for account coding prior to approving, ensuring there is sufficient budget available.

Having clear guidelines will provide clarity on how expenses should be recorded, and to which accounts the expense should be coded to in the Agency's financial records.

• **$3,554.13** (Applied Technology Group), Date: 12/28/2022 – assigned to GL account number 512710 (Equipment Maintenance and Supplies), more appropriate account would have been 512660 (Equipment – Small tools/Equipment <$2,000). • **$1,411.89** (Codetwo) – Assigned to GL account 512410 (Fuel), more appropriate account would have been 521410 (Computer Systems Maintenance). IT has acknowledged that this was likely a transcription error. • **$1,020.00** (Bitwarden) – Assigned to GL account 512410 (Fuel), more appropriate account would have been 521410 (Computer Systems Maintenance). IT has acknowledged that this was likely a transcription error. • **$649.00** (Network Solutions) – Assigned to GL account 512410 (Fuel), more appropriate account would have been 521410 (Computer Systems Maintenance). IT has acknowledged that this was likely a transcription error. Finance has not provided guidelines or criteria related to where expenses should be charged. Additionally, the Cardholder approvers reviewing and approving transactions in US Bank need to review carefully to ensure the proper accounts were selected.	***The following Recommendation was already provided in the prior 2023 audit report for Finance (dated September 2023) as recommendation #10.*** The Finance Department Management should provide criteria, guidelines and information related to what would be an appropriate general ledger account for the different types of expenses to ensure there is clarity and consistency in the use of account coding. Periodically communicate the guidelines to Agency employees and enforce the correct use to ensure financial statements are represented fairly.	
Accountability of IT equipment assets **Dell laptops, computers, Network Switches, and Server** IA selected 60 of the 595 IT P-card transactions for detailed review, including evaluating if proper controls are in place for the accountability and inventory of the assets. For the 60 items selected, IA noted that 7 of the 9 IT equipment/assets purchased from Dell using the P-card were not accounted for nor tracked on IT's records. • 4 laptops were purchased on the P-card in 2023, totaling $10,803.23. ○ **2 of the 4 laptops,** totaling $6,494.25 and purchased on the P-card *were not included* in IT's asset records. IA confirmed the other 2 laptops, valued at $4,308.98, were included in IT's records. • **1 computer** purchased for $2,223.32 in August 2023 ***was not included*** in IT's asset records. • **3 Module Network Switches** purchased on the P-card ***were not included*** in IT's internal records. Total costs was $4,165.20	5. The IT Department should take the lead in establishing a process to ensure all IT assets and equipment purchased using P-cards are timely and properly recorded in the IT Department's internal asset records to ensure there is accountability over the assets. 6. The IT Department should take the lead to make the necessary updates to their internal asset records and add the items identified through this audit.	Having IT asset lists that are current, accurate and complete ensures there is accountability of the IT equipment and/or assets purchased with Agency funds.

- **1 Rack Server** was purchased for $1,276.08 in December 2022 on the P-card and ***was not included*** in IT's asset records.

See the table that follows for details.

The IT Department *does not have a process in place to ensure IT equipment purchased on the P-card are recorded and tracked* on IT's internal asset records. Laptops, desktop workstations, and other types of IT equipment should be accounted for by IT.

According to the P-card Administrator, the purchase of the IT equipment on the P-card is acceptable because the dollar amount falls under the single quote threshold ($10,000 or less) outlined in the Agency's Procurement Ordinance Number 110.

The table below identifies the 29 IT assets and/or equipment that were purchased using the P-card and are greater than $1,000. The items relate to observations that follow below:

Description	Transaction Date	Vendor Name	P-card Transaction Amount	Matched to IT's internal records	Matched to financial records & capitalized in SAP
1 Dell Latitude 5430 Rugged Laptop	3/14/2023	Dell	$3,233.74	No	No
1 Dell 5430 Rugged Laptop	4/20/2023	Dell	$3,260.51	No	No
2 Dell Latitude Laptops	8/1/2023	Dell	$4,308.98	**Yes**	No
1 Computer	8/8/2023	Dell	$2,223.32	No	No
1 Module Network Switch	12/16/2022	Dell	$1,223.40	No	No
1 Rack Server	12/16/2022	Dell	$1,276.08	No	No
1 Module Network Switch	6/6/2023	Dell	$1,471.74	No	No
1 Module Network Switch	6/6/2023	Dell	$1,470.06	No	No
1 Apple iPad Pro 12.9	12/17/2022	Apple	$1,511.42	No	No
1 Apple iPad Pro 11	2/1/2023	Apple	$1,188.47	No	No
1 Apple iPad Pro 12.9	4/8/2023	Apple	$1,511.42	No	No
1 iPro iPad 11 Inch	7/11/2023	Verizon Wireless	$2,088.02	**Yes**	No
2 iPro iPad 11 Inch	7/11/2023		$2,178.48	**Yes**	No
1 iPad 12.9 Inch	8/9/2023		$1,412.49	**Yes**	No
1 iPad 12.9 Inch	8/9/2023		$2,650.47	**Yes**	No
1 iPad 12.9 Inch	8/9/2023		$1,684.87	**Yes**	No
1 iPad 12.9 Inch	8/9/2023		$1,404.74	**Yes**	No
1 iPad 11	8/9/2023		$1,089.24	**Yes**	No
1 iPad eLogbook	8/9/2023		$2,033.04	**Yes**	No
8 iPad eLogbook	8/9/2023		$11,377.28	**Yes**	No
Total Dollar Amount			**$48,597.77**		

Source: US Bank Access® Online system, Transactional Detail Summary Report.

P-card purchases: Tracking and accountability of iPads purchased through Apple Inc. Three of the 60 items selected for detailed review were iPads purchased from Apple Inc. using the P-card and could not be matched to the IT Department's internal records. The total cost of the 3 iPads was $4,211.01 and purchased between December 2022 to April 2023. Currently, IT does not seem to have a process in place to ensure iPads purchased on the P-card are recorded and tracked on IT's internal asset records, and there is no accountability for the assets. The iPads purchased on the P-card are allowable since the individual cost of the iPad is less than $10,000, which is within the single quote threshold per Procurement Ordinance Number 110. Agency A-09 states that IT will account for and track all equipment over $1,000.	**7.** The IT Department should take the lead to record and update their internal asset records to include the iPads purchased from Apple and identified through this audit. **8.** The IT Department should implement a process to ensure any iPads purchased from any vendor using P-cards are recorded in the IT Department's internal asset records, to properly track and account for technology equipment.	Having IT assets lists that include iPads purchased on the P-cards ensures the asset records are current, accurate, complete, and there is accountability of the IT equipment /assets in operation and purchased by the Agency. Best practice dictates that should be a system in place for tracking, inventorying, and assigning IT equipment for effective asset management.
P-card purchases: tracking and accountability of radios purchased from Radios Applied Technology Group Inc. One of the 60 items selected for detailed review was for a pair of Orbit radios purchased using the P-card. Total cost was $3,554.13 and purchased in December 2022. The purpose of the purchase was to replace radios utilized for network-to-network connections that have become obsolete and no longer supported by the vendor. The radios were purchased by IT staff on the P-card for another Agency department. The P-card purchase was charged to Equipment Maintenance and Supplies. Currently, there are no guidelines for the accountability of these types of IT assets (i.e., radios, drones, or other specialized equipment), and **if these types of assets should fall under the IT Department, accounted for in asset records and capitalized when necessary**. Because of the importance of the assets, there should be a process in place to effectively manage all IT assets.	**9.** The IT Department should determine if specialized equipment (i.e., radios, scanners, drones, etc.) should be tracked and accounted for on their internal asset records and if so, establish a process to ensure these are recorded when purchased. **10.** The IT Department should take the lead and work with the Finance Department and determine the best method to account for these assets (communications radios identified through the audit and other specialized equipment) in the Agency's financial system to ensure the proper recording and capitalization is applied.	Having a systematic method to account for and track Agency equipment provides visibility and accountability of the assets in use and purchased by the Agency.
P-card purchases: capitalization of IT equipment IA identified 30 new IT assets valued at $52,151.60 were purchased with the P-cards, all meet the capitalization threshold but none have been reported to Finance to ensure proper capitalization is applied in the Agency's financial system (SAP), the following were noted: • **Dell:** 4 laptops, 1 computer, 3 Module Network Switches and 1 Rack Server were purchased in 8 separate transactions, totaling $18,467.83.	**11.** The IT Department should take the lead to establish a process to ensure IT assets purchased using P-cards and meet the Agency's capitalization threshold are reported to the Finance Department in a timely manner to ensure proper recording and capitalization is applied in the Agency's financial system (SAP) to ensure the Agency's financial statements are accurately represented.	Ensuring there is a process in place that ensures IT assets are recorded in the financial system as soon as they have been placed into operation ensures assets are recorded according to accounting rules and financial reporting is accurate and complete.

- **Apple**: 3 iPads were purchased in 3 separate transactions, totaling $4,211.01.
- **Verizon Wireless**: 17 iPads were purchased and identified through the 2 monthly statements, totaling $25,918.63.
- **Applied Technology Group:** 1 pair of radios was purchased, totaling $3,554.13.

The IT Department does not have a process in place to ensure IT assets/equipment purchased on the P-card follow the Agency's financial recording and capitalization practices and thresholds.

Per the Agency's FY 2021-22 Annual Comprehensive Financial Report (Note 1), computer equipment with a *cost of $1,000 or greater* and an *estimated life greater than 1 year* is required to be *capitalized* and *depreciated*. Accounting guidelines require assets be depreciated when placed into operation.

CAPITAL ASSETS

Property, plant, and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation, installation or construction costs, Agency labor for engineering, construction management, and administrative activities, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

Type of Expenditure	Total Cost	Estimated Life
Office Equipment	≥$5,000	>1 Year
Computer Equipment	≥$1,000	>1 Year
Other Equipment	≥$5,000	>1 Year
Maintenance & Repair Expenditures	≥$5,000	≥3 Years
Single Year Capital Projects	≥$5,000	≥3 Years
Multi-Year Capital Projects	≥$15,000	≥1 Years

Monitor and printers purchased without IT approval

IA identified the following items purchased on P-cards by staff outside of the IT Department:

- **Best Buy**: **1 Samsung 55" TV** and a wall mount were purchased with the P-card by staff for the Inland Empire Regional Composting Authority (IERCA). Total amount purchased was $544.73. Supporting documentation did not include any approval from the IT Department, nor was IT aware of the purchase.
- **Staples**: **2 printers** were purchased with the P-card by staff for the IERCA. One printer cost $1,092.46, while the other printer cost $592.61, totaling $1,685.07. Additionally, the printer that costs $1,092.46 should be capitalized because it meets the capitalization threshold of $1,000 or more.

Agency Policy A-09 requires that all only IT purchase IT equipment. The IT Department stated that any IT equipment purchased that requires connection to the Agency's IT network and infrastructure should be purchased and coordinated through the IT Department, regardless of the availability of budgetary funds.

12. The IT Department should take the lead to update and communicate to all staff the requirements of Agency Policy A-09 related to specialized equipment and the requirement that all staff must coordinate and work closely with the IT team before making any IT purchases that connect onto the Agency's network. Determine if approval from the IT Department must be obtained before the transaction is processed and before the device connects to the network.

Having all IT assets and/or equipment purchased by IT Department:
- ensures IT equipment purchased is compatible with the Agency's IT business network and infrastructure.
- provides visibility and awareness of all the IT assets being purchased.
- ensures tracking and accountability of the IT equipment.

Inventory, Issuance, and Accountability of IT equipment		
Record-keeping and review of IT's internal reports: *IT and OT equipment* IA requested the lists of all IT and Operational Technology Equipment (OT) managed and tracked by the IT Department. IT provided 2 lists, IA reviewed both lists (provided in excel spreadsheets). IA evaluated the lists and noted the following: **IT asset listing:** key-identifying information was missing or incorrect, including asset numbers, serial numbers, and updated locations, specifically: • **297 of 755 assets (or 39%)** were missing assigned asset numbers. • **113 of 755 assets (or 15%)** were missing serial numbers. **OT asset listing (Automation Device List)**: key identifying information were missing, as follows: • **58 assets (10%) out of the 599 assets** did not contain an assigned asset number. • **52 assets (9%) out of 599 assets** did not contain a listed serial number. • **Storage or Spare items locations**: IA observed the locations listed for storage or spare assets were not current or accurate. The OT asset listing noted several different stockrooms at RP-1. During the physical observation, IT staff were unfamiliar with these various locations and noted there is only one storage room where spare IT assets are kept at RP-1. Having incomplete and incorrect data recorded in the fields in IT's lists does not allow for the assets to be physically verified, validated, or reconciled (with other asset reports, such as the financial reports (SAP).	13. The IT Department should take the lead to record or update the columns and fields with any missing or incorrect data in their internal asset reports related to IT or OT equipment. The IT Department should ensure the information recorded is current, accurate, and cross-check the information with the physical asset. 14. The IT Department should take the lead in determining if a systematic method is needed for storage to ensure staff can find items when needed. 15. The IT Department should take the lead to ensure staff are familiar with the storage locations and where spare or additional items can be found, when necessary.	Having an accurate and complete data in the asset listings provides a record of IT Equipment in operation and ensures they have custody and control of the assets purchase by the Agency.
No Periodic Inventory is performed: OT assets The Automation Device Export list (i.e., spreadsheet) contains all the OT assets maintained by the IT Department, which are assets utilized to support the Agency's Supervisory Control and Data Acquisition (SCADA) and Distributed Control System (DCS) equipment located at the treatment plants and facilities. Using the Automation Device Export list, IA selected a sample of 30 assets, located at either Headquarters Building B (HQB) or RP-1, to verify the physical existence of the assets and if the information recorded was	16. The IT Department should take the lead to periodically perform a physical inventory of all OT assets and verify the assets listed: physically exist, the actual location of the assets, data and details recorded, and are in usable condition. Additionally, the IT Department should ensure that the listings or internal records are complete, accurate, and up to date.	Physical inspections validate the equipment's existence and evaluate the overall operational condition of the equipment. Additionally, performing periodic physical inventory provides the opportunity to verify the information recorded in the IT Department's internal

accurate and complete. IA's physical observation noted the following: • **Unable to locate assets: 17 (57%) of the 30 assets** selected could not be located in the storage locations. • **Location listed was incorrect: 4 (31%) of the 13 assets** that were located were not at the physical location stated on the Automation Device Export list. • **Missing Asset tag: 3 (10%) of the 30 assets** did not contain a PAC number. In addition, IA selected 30 items located at either HQB or RP-1 storage rooms and matched them back to the Automation Device Export List. The purpose of selecting assets at the storage rooms would be to validate the completeness of the list. I IA's observation noted the following: • **20 (67%) of the 30 assets** selected at the storage locations ***could not be traced*** to the Automation Device Export list. • **10 (33%) of the 30 assets** selected at the storage locations could be traced to the Automation Device Export list.		asset lists and financial records.
No Periodic Inventory is performed: IT assets Using the PC Export list (spreadsheet) maintained by the IT Department, which contains all the laptops and workstations assigned to end users. IA selected 10 assets from the PC Export List to verify if the asset exists and the information recorded was correct and up to date. IA's physical observation noted the following: • **Unable to locate assets: None of the 10 assets** selected were located in the HQA IT storage room. • **User and Location assignment:** On the PC Export List, the user assignment and locations listed are not current, accurate nor updated. The data contained in these fields lists the last location the end user worked at, it does not list the current assignment or physical location. In addition, IA selected 10 assets located in HQ-A's storage room and matched them back to the PC Export list. IA's observation noted the following: • **1 (10%) of the 10 assets** selected from the HQA IT Storage room was matched to the PC Export list.	**17.** The IT Department should take the lead to periodically perform a physical inventory of all IT assets assigned to Agency staff and verify the assets listed exist, the location of the assets, accurately note the identifying data and details recorded, and the condition of the asset. Additionally, the IT Department should ensure that the listings or internal records are complete, accurate, and up to date. **18.** The IT Department should work to enhance the record keeping of their IT assets by continuously updating the status, locations, and the condition of IT equipment. IT should perform periodic inspections of the lists to determine which assets exist, the condition the assets are currently in, and update the locations of all assets maintained.	Physical inspections validate the equipment's existence and evaluate the overall operational condition of the equipment. Additionally, performing periodic inventory provides the opportunity to verify the information recorded in the asset lists and financial records.

• **9 (90%) of the 10 assets** selected from the HQA IT Storage rooms *could not be matched* to the PC Export list.		
Outdated Agency Policy and SOPs There are no updated formal or documented policies or SOPs for the inventory, tracking, and accountability of IT Equipment. In discussions with the IT Department, the current policy, A-09 *Computer and Electronics Policy* is outdated and is no longer being used as a criterion for the IT Department. This policy also places the responsibility of purchasing all IT related equipment under the responsibility of the IT Department. As of November 2023, there have been no updates in place for the IT Department to follow in terms of managing IT Equipment.	**19.** The IT Department should take the lead and work with the HR Department to make needed updates Agency Policy A-09 or to create a new policy which addresses the audit recommendations in this report. **20.** The IT Department should take the lead to develop Standard Operating Procedures to address the recommendations in this report and establish processes to track, issue and inventory all IT equipment.	Having a formal policy for all staff to follow would enable the IT Department to maintain full control of inventory, issuance, and accountability of all IT equipment purchased by the Agency. In addition, creating Department SOPs enables staff to understand their role in maintaining, operating, and locating all existing equipment.
Recommendations for Finance		
Reconciliations of IT assets lists are not performed IA attempted to match the items listed on the PC Export Listing (provided by the IT Department) and the SAP asset listing (provided by the Finance Department). IA used the serial number and asset numbers to attempt to match the assets on both lists. The PC Export List contained 755 assets, while the SAP listing contained 1,393 assets (a difference of 638 assets). Based on the information provided, IA noted the following: • **Matched 160 assets** from the IT Listing to the Accounting SAP Listing. Among the 160 assets that were matched between the two lists, the acquisition value of these items was $235,856. • **Unable to match 1,233 assets** from the SAP list back to IT's list. The acquisition value of those assets is $38,701,942. • **Unable to match 595 assets** from the PC Export Listing to the SAP listing, thus, IA cannot determine the acquisition value of these assets. The list did not contain the asset values. • **Different Asset Number**: 6 assets of the 595 assets that were not matched between PC Export listing and the SAP listing had the same serial number but contained different asset numbers.	**21.** The Finance Department management and the IT Department should lead to perform periodic reconciliations against IT's PC Export Listing and other lists that contain IT equipment. Finance should verify that all identifying information, such as the asset number and the serial number are recorded. Finance should work closely with IT to verify, confirm and reconcile the asset lists to ensure that the appropriate asset numbers, serial numbers, and model numbers match each other.	Having asset lists and reports that are accurate and complete with the identifying information will ensure there is adequate tracking, record-keeping and management of all IT assets.

• **Different Serial Number**: 4 assets from the 595 assets that had the same Asset Number on both lists but contained a different Serial Number on each list. • **Asset number listed twice**: 1 asset, BIZ03439, was found twice and had the same asset number on the IT list. When listings are not updated, accurate, or complete, it makes it difficult to track and locate the various assets listed under the control of the IT Department.		
Depreciation of assets IA reviewed the SAP listing of IT assets (provided by the Finance Department) and the PC Export Listing (provided by the IT Department), IA matched 160 assets between both lists. Of the 160 IT assets that were matched, the acquisition value of these items was $235,856, these IT assets are fully depreciated and have zero remaining book value in Agency's financial system (SAP).	22. The Finance Department management and the IT Department should determine if the useful lives for IT Equipment could be extended to ensure the current assets could remain in use. 23. The IT Department should review all equipment listed to determine if there have been any impairments in the assets and determine the need to dispose of older equipment listed in SAP.	Extending the useful lives of assets can be beneficial because it allows the Agency to receive more benefits and use from the IT assets.

2016 Follow up on Open Recommendations:

IA completed the original IT equipment audit in August 2012, and a total of 22 recommendations were provided to ensure internal controls are in place and ensure the physical control and accountability of IT equipment. In November 2012, IA performed a follow-up review to assess the status of the 22 recommendations, and after 2012, 18 recommendations remained outstanding. In 2016, IA followed up on the 18 recommendations and found that 11 recommendations were implemented, 6 recommendations are in progress, and 1 recommendation is no longer applicable. IA also provided 2 new recommendations. After 2016, 8 recommendations continued to be outstanding.

IA refers readers to the respective IT equipment audit reports, which were received and filed by the Board of Directors at the time of issuing the reports, these reports can also be accessed through the Agency's intranet website or requested from the Manager of Internal Audit:

- Information Technology Equipment Audit, dated August 21, 2012,
- Information Technology Equipment Follow-up Audit, dated November 14, 2012,
- Follow-Up Review – Information Technology Equipment – ISS, dated February 29, 2016
- Follow-Up Review – Information Technology Equipment Audit – FAD, dated December 5, 2016

Follow Up on Prior Audit Recommendations
These are the prior/outstanding recommendations provided in previous audit reports.

In February 2016, IA completed a Follow-up Audit and the two recommendations listed below were outstanding:

2016 Recommendation # 1 (from the August 2012 Follow-Up audit report): ISS implement appropriate tracking systems that include relevant information on IT purchases (i.e., serial numbers, etc.), are updated timely and are complete and accurate. ISS should establish procedures to enter, modify, and delete information in the tracking systems that address areas such as timeliness for updates, responsibilities for maintaining the systems, and the types of items included in the tracking system.	**Status: Not Implemented** IA reviewed the current method (i.e., spreadsheets) used by the IT Department to track and record IT equipment at the Agency. Through the physical observations performed, IA determined that the data recorded is not up to date, accurate, nor complete. IT's lists were found to have missing or incorrect key identifying information. Thus, IA considers this recommendation to be Not Implemented and will follow up in another audit, which will be scheduled through the Board-approved Annual Audit Plan.
2016 Recommendation # 2 (from the November 2012 Follow-Up audit report): ISS should ensure that any services procured with P-cards are expressly authorized by the Manager of CAP, CFO, AGM, or GM prior to committing to services.	**Status: No Longer Applicable** The Agency's P-card program has evolved and expanded since this recommendation was originally provided in 2012. According to the P-card Pilot Program Policy (August 2022), the P-cards currently are to be used to pay for small dollar items, and non-restricted goods and services. Per the Procurement Ordinance, any goods or services that costs $10,000 or less requires only 1 quote (single or sole source justification as required) and it is acceptable to pay for them with the P-card. The IT Department currently purchases various types of IT equipment and software services with the P-cards. The IT Department obtains the approval of the Manager of Contracts and Procurement via a memo when the purchase related to a single source or sole source vendor and a justification is needed.

In December 2016, IA completed a Follow-up Audit and provided the Finance Department with six recommendations:

2016 Recommendation #1 (from the August 2012 Follow-Up audit report): FMD should implement adequate controls to ensure that the stated capitalization policy for IT equipment is consistently followed to ensure that all items meeting the capitalization threshold are capitalized and to ensure that items not meeting the capitalization threshold are not capitalized.	**Status: Not Implemented** As noted above, the audit identified purchases made on the P-card that meet the current capitalization threshold but were not reported to accounting for proper capitalization. This recommendation is specific for the Finance Department) to take the lead to provide clear guidelines on the items and thresholds for assets to be capitalized. This recommendation continues to be outstanding.
2016 Recommendation #2 (from the August 2012 Follow-Up audit report): FMD should implement adequate controls to ensure that asset records established in SAP are accurate and complete, such as ensuring that all data fields in SAP are completed and ensuring that only those items allowed by the capitalization policy are capitalized.	**Status: Not Implemented** As noted above, based on the review of the SAP asset list for IT and OT items, the audit identified several assets with missing identifying information or duplicate information. There are not sufficient controls in place to ensure that asset records in SAP are accurate and complete and match the physical assets managed by IT. This recommendation is specific for Finance Deaprtment to take the lead to provide evaluate controls and processes to ensure SAP asset records are complete and accurate. This recommendation continues to be outstanding.

2016 Recommendation #3 *(from the August 2012 Follow-Up audit report)*: *FMD should return incorrect or incomplete Project Closure Authorization Forms to the Project Manager for proper completion. FMD should also provide training to Project Managers on the importance of proper completion and instructions on completing the form.*	**Status: Not Implemented** As noted above, based on the review of the SAP asset list for IT and OT items, the audit identified several assets with missing identifying information or duplicate information. There are not sufficient controls in place to ensure that asset records in SAP are accurate and complete and match the physical assets managed by IT. This recommendation is specific for Finance Department to take the lead to provide evaluate controls and processes to ensure SAP asset records are complete and accurate. This recommendation continues to be outstanding.
2016 Recommendation #4 *(from the August 2012 Follow-Up audit report)*: *FMD should document Standard Operating Procedures to address the functions of setting up capital assets such as procedures for completing the SAP asset information, compliance with stated capitalization thresholds, and processing of Project Closure Authorization Forms.*	**Status: Not Implemented** As noted above, based on the review of the current A-09, the Capitalization policy and the SAP asset list for IT and OT items, the audit identified differences and inconsistencies with the application of the capitalization threshold. Additionally, there is no reconciliation of asset records between Finance and IT. There are not sufficient controls in place to ensure that asset records in SAP are accurate and complete and match the physical assets managed by IT. This recommendation is specific for the Finance Department to take the lead to provide evaluate controls and processes to ensure SAP asset records are complete and accurate. This recommendation continues to be outstanding.
2016 Recommendation #5 *(from the December 2016 audit report)*: *FAD should take the lead to ensure a physical inventory and inspection of the Agency's IT fixed assets is completed on a periodic basis to verify existence, location, and working condition of assets.*	**Status: Not Implemented** During the 2023 Follow-up of this recommendation, it was noted that the IT Department does not perform a physical inventory of the assets under their responsibility. Additionally, the Finance Department has not taken the lead to ensure a physical inventory is performed of IT assets and there is no process in place to ensure there is a reconciliation performed between IT's internal lists/records and the lists of IT assets recorded in the financial system (SAP). IA considers this recommendation not implemented.
2016 Recommendation #6 *(from the December 2016 audit report)*: *FAD should evaluate the Agency's current capitalization thresholds for IT equipment and determine if these need to be increased to ensure current practice meets policy and are consistent with current trends.*	**Status: Not Implemented** As noted earlier in the report, the Agency's capitalization threshold continues to remain at $1,000 for computer equipment per the FY 2021/22 ACFR. The IT Department stated there are plans to increase the capitalization threshold from $1,000 to $5,000 for computer and IT equipment, starting in FY 2023/24. As of the date of this report, there has been no formal documented communication that the capitalization thresholds have been evaluated nor updated. IA considers this recommendation Not Implemented.

Conclusion

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

2023 Review of Purchasing Card Program - Information Technology Equipment and 2016 Recommendations

Teresa Velarde

Manager of Internal Audit

December 2023

Agency's P-card Program

- Expanded P-card
  - 258 P-cards have been issued as of November 2023
  - To make procurement more efficient

- Types of Purchases allowed
  - Purchases are for Agency related business purposes only
  - Small dollar items
  - Adhere to Board-approved ordinances and policies
  - Follow the most appropriate procurement method

- First P-card Audit report – September 2023
  - 12 recommendations

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2023 Review of Agency's Purchasing Card Program Information Technology Equipment

Audit Scope

—Evaluated P-card purchases

—Evaluated internal controls over IT purchases on the P-card were
  • Properly approved
  • Complete supporting documents

—Evaluated processes in place to account for all IT equipment purchased
  • Account for, assign, track and inventory equipment
  • Coordination with IT Department for purchases
  • Coordination with Finance for proper asset reporting

—Evaluated recommendations provided in 2012 & 2016

2023 Review of Agency's Purchasing Card Program Information Technology Equipment

- Audit period reviewed
  - September 1, 2022, to August 31,2023
  - **IEUA and IERCA**

- IA selected for review
  - 60 IT transactions for review and analysis
  - Additional transactions from other departments and specific vendors
  - Transactions over user agreement limits
  - Transactions over the Procurement Ordinance thresholds

- Observations are consistent with the 2012 and 2016 audit observations
  - Related to the tracking and inventory of technogy equipment

IT Department P-card Purchases

Currently in SAP (financial records) IT Assets have an acquisition value of approximately $30M

With a book value of approximately $3M

During the 12-month review period (September 2022 to August 2023), there were 6,029 transactions processed on all Agency P-cards, for IEUA only, totaling $2,399,254

IT P-card Transactions Only *(includes both IEUA and IERCA)* Breakdown of transactions by Amount Spent September 1, 2022, to August 31, 2023		
Range of dollar amount of the P-card transaction	Number of transactions	Total Dollar Amount
Over $10,000	11	$ 174,816
Between $5,000 and $9,999	13	106,966
Between $1,000 and $4,999	83	153,489
Below $1,000	488	73,213
Totals	**595**	**$ 508,484**

Top 10 Vendors Used by IT – in terms of dollar amounts

Top 10 Vendors used by IT Department (in terms of dollar amounts charged to P-cards) September 1, 2022-August 31, 2023		
Merchant Name	**Description**	**Dollar amount**
Microsoft	Purchase and monthly usage charges for Microsoft Azure Infrastructure Services	$112,253
Verizon Wireless	Telecommunication Services includes usage (i.e., cell and data plans) and equipment charges (i.e., iPads and other items)	$109,954
Kambrian Corporation	Software licenses and support subscriptions	$23,431
Dell Technologies	Laptops, desktop workstations, and other computer peripherals and accessories	$22,722
Duo Security LLC	Cloud-based authentication service for online accounts	$13,816
GovernmentJobs.com	Subscription for software used by HR	$12,719
Zones LLC	Annual support subscription for Office365	$10,840
OSIsoft LLC	Conference registration fees	$8,545
Stormwind LLC	Educational and training services	$8,330
Royal Industrial Solution	E-learning software subscription for Agency staff	$8,290
Totals		**$330,901**

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Agency Policies

Agency Policies0			
Type of Document	**Number**	**Name/Title**	**Effective date/ Revision date**
Draft Policy	*none assigned*	*P-CARD Pilot Program Policy*	*August 2022*
Agency Ordinance	110	Procurement Ordinance	September 21, 2022 (adopted)
Agency Policy	A-89	Procurement Card Program	January 26, 2016
Annual Comprehensive Financial Report, Note 1	FY 2021/22	Capitalization threshold – Computer equipment $1,000 *(Notes to the Basic Financial Statements, Note 1: Summary of Significant Accounting Policies Organization and Summary of Significant Accounting Policies, Section: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position, Capital Assets)*	FY 2021/22
Leveraged Procurement Agreement	7-20-99-42	California Participating Addendum *(Term ends December 31, 2025)*	January 1, 2021
Department SOP	FA PR – 01	Policy of Tangible and Intangible Assets – SAP FY 20/21	July 1, 2020
Agency Policy	A-09	Computer and Electronics Policy	February 20, 2015
SOP	OPS-ISS-010	Technology Services System Management Policies and Procedures	11/10/2015 & 9/9/2019

Diagram for IT Equipment Lifecycle & Internal Controls

IT Equipment Purchases
Diagram of IT Equipment Lifecycle with Applicable Internal Controls & Guidance

PHASE	Purchases/ Acquisition	Inventory/ Accountability	Capitalization	Disposal of Assets
INTERNAL CONTROLS	• Follows Procurement Requirements per Procurement Ordinance • Need P-card Purchase Guidelines if purchased with P-card • Purchased through an established contract if required • Purchase authorization or request obtained • Warranties purchased if required • Follows Agency compatibility and standardization of assets • Segregation of duties with the request, ordering, receiving, and processing • Software = Contracts paid with P-cards	• Purchases are tracked so there is segregation of duties with requesting, ordering, and receiving • Equipment is tracked in inventory database • Equipment is tagged to ensure identification, tracking and accountability • Equipment is properly issued to Agency employees, making notes to database • Maintenance is ongoing • Periodic Inventories are conducted to confirm inventory and accountability of equipment • Accounting records of IT assets and IT asset records reconciliation.	• Capitalization follows Agency Policies. • IT assets are properly reported to Accounting timely to ensure proper capitalization • The correct capitalization dollar threshold is applied	• Disposal, recycle or donation of IT assets follow Agency Policies • Prior to disposal, IT assets are properly cleared/erased of any Agency private information • Prior to disposal, the proper notification and authorization is granted. • There is proper communication to remove the IT asset from the financial system (SAP) or financial records • Required departments are involved in the process to dispose of IT assets
CRITERIA	Procurement Ordinance No.110 Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7	Agency Policy A-04 Agency Policy A-09 Agency Policy A-49	Finance Department SOP – Policy of Tangible and Intangible Assets Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7	Department SOP Agency Policy A-09 Agency Policy A-49 Annual Comprehensive Financial Report – Notes 1 & 7

Created by Internal Audit

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Capitalization threshold
ACFR Note 1 to the Financial Statements

CAPITAL ASSETS

Property, plant, and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation, installation or construction costs, Agency labor for engineering, construction management, and administrative activities, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

Type of Expenditure	Total Cost	Estimated Life
Office Equipment	≥$5,000	>1 Year
Computer Equipment	≥$1,000	>1 Year
Other Equipment	≥$5,000	>1 Year
Maintenance & Repair Expenditures	≥$5,000	≥3 Years
Single Year Capital Projects	≥$5,000	≥3 Years
Multi-Year Capital Projects	≥$15,000	≥1 Years

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Purchases: Recordkeeping and Accountability of IT Equipment

30 assets purchased with **P-cards:**

-required they be capitalized but have not been reported in SAP

-none of the items tracked in Finance asset records

-some items not tracked in IT asset records

- New dell laptops, computers, network switches and servers
  — Equipment valued at $18,467
  — Has not been reported to Finance for proper recording and capitalization.

- New iPads
  — 20 iPads valued at just over $30,000, purchased from different vendors (Apple and Verizon)
    - 17 tracked in IT's asset records, 3 are not tracked
    - 20 not tracked in Accounting's asset records

- New Radios (machine to machine)
  — Valued at $3,500
  — Not tracked on either IT's asset list or Accounting's asset list

Purchases: Electronics purchased without IT's knowledge

- Per Agency Policy A-09 – all IT equipment purchases should be coordinated through the IT Department to ensure:
  - standardization of equipment
  - approval to connect on to the Agency's network
  - ongoing maintenance and support of the equipment

- IT equipment purchased without IT's knowledge or coordination:
  - Purchased by a different department using the P-cards
    - **Best Buy**: **1 Samsung 55" TV for** $544.73
    - **Staples**: **2 printers** for $1,092.46 (should be capitalized), and $592.61,

  - 1 item requires it follow current capitalization practices

  - Items were not recorded in the Agency's asset records for IT or Finance

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Expense Account Assignments

IA noted 5 transactions that could have been assigned to a more appropriate accounting code, the following were the most obvious:

- **$1,411.89** (Codetwo)
  - **was coded to GL account 512410 (Fuel)**
  - more appropriate account would have been 521410 (Computer Systems Maintenance)
  - staff stated this was likely an error

- **$1,020.00** (Bitwarden)
  - **was coded to GL account 512410 (Fuel)**
  - more appropriate account would have been 521410 (Computer Systems Maintenance)
  - staff stated this was likely an error

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Tracking, Assignments and Inventory of Assets

Physical Inventory

- Periodic Inventory of OT Assets
  - IA could not reconcile items from IT's asset list to the storage locations at HQ-B and RP-1
  - Items selected at these storage locations could not be found on IT's list

- Periodic Inventory IT Assets
  - IA could not reconcile items from IT's IT asset list to the storage locations at HQ-B and RP-1
  - Items selected at these storage locations could not be found on IT's list

RP1 Storeroom

HQ-B Storeroom

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Tracking, Assignments and Inventory of Assets

- IT Internal Asset Records incomplete
  - Items on IT's lists are not updated and missing fields, such as serial number and asset number

IA review and testing of IT's PC Export List

Name	Organization->Nam	Status	Business criticali	Brand->Name	Model->Name	Serial number	Asset number
LOANER57	IEUA	stock	low	Dell	Latitude E6430	5HGGNX1	BIZ00721
LOANER70	IEUA	stock	low	Dell	Latitude E6430	5GGGNX1	BIZ00724
LONER-62GRSY1	IEUA	production	low	Dell	Latitude E6430	62GRSY1	
E7440-8M2CP12B	IEUA	stock	low	Dell	Latitude E7440	8M2CP12	
LOANER11	IEUA	production	low	Dell	Latitude 3550	9BJB042	
LAT7450-FGT9L32	IEUA	production	low	Dell	Latitude E7450	FGT9L32	BIZ02401
OCT15-6K26V52	IEUA	production	low	Dell		6K26V52	
LOANER15	IEUA	production	low	Dell	Latitude 3550	f06dz32	BIZ03203
OCT15-GCT4W52	IEUA	production	low	Dell	OptiPlex 7020	GCT4W52	BIZ03504
LOANER14	IEUA	production	low	Dell	Latitude 3550	j9jb042	BIZ03223
LONER-HBJB042	IEUA	stock	low	Dell	Latitude 3550	HBJB042	
LOANER2	IEUA	stock	low	Dell	Latitude 3550	2D6B042	BIZ03233
OCT15-3B4H082	IEUA	production	low	Dell	OptiPlex 7020	3B4H082	BIZ03523
OCT15-3B4J082	IEUA	stock	low	Dell	OptiPlex 7020	3B4J082	
JAN16-8BQ0662	IEUA	production	low	Dell	Latitude E7450	8BQ0662	BIZ02972
IERCF-JXQ0182	IEUA	production	low	Dell	OptiPlex 7020	JXQ0182	
DEC15-62X0282	IEUA	production	low	Dell	OptiPlex 7020	62X0282	BIZ03550
DEC15-62ZZ182	IEUA	production	low	Dell	OptiPlex 7020	62ZZ182	
FEB16-62Y0282	IEUA	stock	low	Dell	OptiPlex 7020	62Y0282	
FEB16-62Y1282B	IEUA	stock	low	Dell	OptiPlex 7020	62Y1282	BIZ03561
MAY16-8QNVG22	IEUA	stock	low	Dell	Latitude 3550	8QNVG22	
APR16-GLDQG22	IEUA	stock	low	Dell	Latitude 3550	GLDQG22	
JUL16-1JLFB2	IEUA	production	low	Dell	OptiPlex 7020	1JL3FB2	BIZ03571
APR16-1JL2FB2	IEUA	stock	low	Dell	OptiPlex 7020	1JL2FB2	
IERCF-80XJFB2	IEUA	production	low	Dell	OptiPlex 7020	80XJFB2	
AUG16-6NK8JC2	IEUA	production	low	Dell	Latitude E7470	6NK8JC2	
AUG16-8TK8JC2	IEUA	stock	low	Dell	Latitude E7470	8TK8JC2	
AUG16-JXK8JC2	IEUA	production	low	Dell	Latitude E7470	JXK8JC2	
LONER-J868JC2	IEUA	production	low	Dell	Latitude E7470	J868JC2	
DEC16-236BVD2	IEUA	stock	low	Dell	Latitude E7470	236BVD2	
APR17-2CN7B0Q	IEUA	production	low	Dell	Latitude 7280	2CN7B0Q	BIZ03119

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Tracking, Assignments and Inventory of Assets

Reconciliation of IT's asset list with Finance asset list

- Of the 1,393 items in SAP and 755 assets on IT's lists, only 159 items could be matched together. (21% of IT's list and 11% of SAP's list).

- Issues with completeness of IT's lists, missing information, such as serial numbers and asset numbers made it difficult to match the lists.

SAP Asset List

IT Asset List - PC Export List

Observations

- Department Standard Operating Procedures
  - The Department should take the time to document their own processes for how purchases for IT equipment will be recorded, tagged, assigned, tracked and periodically inventoried

- Agency Policy A-09 Computers and Electronics
  - Effective since 2015
  - Refers to the Technology Asset List – a previous inventory asset list no longer used
    - Currently, IT uses the PC Export List and the Automation Device Export Report (spreadsheet).
  - Does not provide guidelines for all types of technology equipment

Summary of 2016 Follow-Up Results

- **2016 Follow-Up Review – Information Technology Equipment – ISS**:

  Of the 2 outstanding recommendations:

  - 1 recommendation is considered No Longer Applicable
  - 1 recommendation is Not Implemented

- **2016 Follow-Up Review – Information Technology Equipment Audit – FAD**:

  Of the 6 outstanding recommendations

  - All 6 recommendations are Not Implemented

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Audit Observations & Recommendations

Observations
Approvals and supporting documents for new purchases
Tracking and inventory of all IT equipment
Recording, capitalization and disposal of IT equipment
Policies, guidelines and procedures and require updates

23 New Recommendations

2 for Finance
4 for the P-card Administration Team
17 for Information Technology

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Planned P-card Audit:

**P-card Review – Fuel Expenses &
follow up of 4 outstanding recommendations**

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The 2023 Review of the Agency's Purchasing Card Program – Information Technology Equipment and 2016 Follow-Up 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?

Date: December 11, 2023

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

Committee: Audit

Staff Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Quality Control Review of the Annual Comprehensive Financial Report (Written)

Executive Summary:

Internal Audit (IA) completed a quality control review of the Agency's audited Annual Comprehensive Financial Report (ACFR) for Fiscal Year 2022-2023. Each year, IA coordinates with the Accounting Group (within the Finance Department) to review draft versions of the Agency's ACFR before it is finalized and published. IA's review is one of additional quality control. The review includes a review to ensure financial information transferred accurately and correctly between financial schedules and narratives and to ensure a professional presentation of the ACFR. Additionally, IA will review the Single Audit once it has been completed and will provide comments prior to finalization.

The attached report provides details of IA's review.

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

Regional Sewerage   *Technical Committee (Y/N):*

                         Policy Committee (Y/N):

Prior Board Action:

On June 11, 2023, the Board of Directors approved the Fiscal Year 2023/24 Annual Audit Plan. The Plan proposed the quality control review of the ACFR.

Environmental Determination:

Not Applicable

Attachments:

Attachment 1 - IA Quality Control Review - 2023 ACFR Review

Item No: 181

DATE: December 4, 2023

TO: Shivaji Deshmukh
           General Manager

FROM: Teresa V. Velarde
           Manager of Internal Audit

SUBJECT: Internal Audit's Quality Control Review:
           Fiscal Year 2023 Annual Comprehensive Financial Report (ACFR)

Internal Audit (IA) performed a quality control review of the Agency's Annual Comprehensive Financial Report (ACFR) prepared by the Finance Department. Finance provided the following draft documents used by IA to perform the Quality Control Review:

Date Received	Type of Information
September 29, 2023	Trial Balances
September 29, 2023	Individual Fund Statements and Schedules
November 2, 2023	Basic Financial Statements and Notes to the Basic Financial Statements
November 28, 2023	Management's Discussion and Analysis (MD&A)

During the progress of the review, IA provided Finance with comments, edits, and recommendations for their consideration. As of the current date, Finance has not provided the MD&A for IA review. This report documents IA's Quality Control Review of the sections provided and lists a general summary of the observations noted.

<u>Assistance with IA Quality Control Review – Audit Committee Advisor</u>
This year, the Audit Committee Financial Advisor assisted with the review. The Audit Committee Financial Advisor provided a review of the Basic Financial Statements and the Notes. All comments, edits, and suggestions provided by the Audit Committee Financial Advisor were submitted to Finance for their review and consideration.

Water Smart - Thinking in Terms of Tomorrow

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

Quality Control Review of the ACFR
IA applied the following procedures:

- Reviewed for math accuracy and consistency in the referencing of dollar amounts and totals among the narratives, notes and statements, and for overall professional presentation.

- Verified the consistency of the amounts transferred between the Basic Combining Financial Statements and Combining Non-Major Financial Statements as compared to the Individual Fund financial statements.

- Recalculated for mathematical accuracy the Fiscal Year (FY) 2023 totals on the financial statements.

- Checked titles and years to ensure updates were made for the years they correspond to.

Scope of Review
IA did not perform tests of financial transactions, nor audit the accounts or any financial information and did not assess the reliability or accuracy of the financial information reported in the financial statements. The Agency relies on the professional work of the External Auditors, Clifton Larson Allen, LLP (CLA), the Agency's Certified Public Accountants, contractually engaged to provide reasonable assurance that the financial statements are free of material misstatement. The External Auditors and IA rely on the Agency's management for the completeness and reliability of the information presented in the ACFR and reliability of the established internal controls. Consistent with the requirements of the IA Charter and the Audit Committee Charter requirements, IA's review is intended to provide an additional level of quality control.

Observations
During IA's quality control review, observations that IA noted were promptly communicated to Finance staff for appropriate corrective action. In some instances, IA did not verify that all recommendations were addressed or incorporated because staff continued to finalize the ACFR. The observations IA considered most significant and requiring attention are listed in the bullet point items below, details have been provided to Finance under separate correspondence:

- Noted spelling errors and inconsistencies in the line-item presentations between and among the fund schedules and in the narratives.

- Noted errors in table percentages and mathematical accuracy.

- Noted errors in category names and percentages in tables that were not consistent with corresponding pie charts.

- Noted errors in numerical values in the narrative that were not consistent with corresponding tables or the financials.

- Provided comments and recommendations related to mathematical accuracy, grammar, formatting, completeness, etc.

Bond Disclosure Compliance Review

Any information related to the Continuing Disclosure Compliance was reviewed as part of the ACFR review, no additional information was provided related to bond disclosure requirements, such as additional separate reports.

Chino Basin Regional Financing Authority (CBRFA)

Finance provided the draft financial statements for the CBRFA for FY 2023 to IA on November 28, 2023. As of November 30th, no responses have been provided to Finance due to the timing those items were provided to IA. IA plans to provide comments before the December 11th Audit Committee Meeting.

Inland Empire Regional Composting Authority (IERCA)

Finance provided the draft financial statements for the IERCA for FY 2023. As of November 30th, no responses have been provided to Finance; however, IA will provide comments before the financial statements are presented to the IERCA Board.

IEUA Single Audit

As of the date of this report, the Single Audit is in progress of being completed by CLA.

Single Audit Reporting Package to be completed by IA

IA will be submitting the required reports for regulatory reporting and filing by the required date of March 31 with the following organizations:

- County of San Bernardino
- State Controller's Office
- State Water Resources Control Board

During the June 2024 Audit Committee Meeting, IA will update the Audit Committee that all required filings have been completed.

Conclusion

Details of the IA Quality Control Review were discussed during the process of the review with Finance Management and staff. Where possible, comments have been incorporated. This report was provided to Finance Management for review and comments.

IA appreciates the opportunity to provide the quality control review of the FY 2023 ACFR. and appreciates staffs support and assistance during this review. Please contact any member of the Internal Audit Unit if you have questions.

Date: December 11, 2023

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

Committee: Audit

Staff Contact: Teresa Velarde, Manager of Internal Audit

Subject: Internal Audit Quarterly Status Report for December 2023 (Written)

Executive Summary:

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

During this quarter, along with additional routine audit projects and administrative tasks, Internal Audit (IA) staff completed an audit of the Purchasing Card Program related to IT purchases and followed on eight outstanding recommendations from 2016, as well as other audit projects and activities.

The attached Quarterly Status Report provides details of the activities during this quarter.

For additional information and insight, IA has attached a document published by the Institute of Internal Auditors, the Internal Audit Foundation, titled *2024 Risk In Focus - Board Briefing* .

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

Regional Sewerage *Technical Committee (Y/N):*

Policy Committee (Y/N):

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

Attachments:

Item No: 78

Attachment 1 - Status Report

Internal Audit Unit Quarterly Status Report

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Projects Completed This Quarter

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Project:

2023 Review of Agency's Purchasing Card Program – Information Technology Equipment and 2016 Recommendations

Scope:

The objectives of the overall Purchasing Card (P-card) audit were to evaluate the internal controls over the Agency's P-card program, to determine if the purchases are made in accordance with the Agency's Procurement Ordinance, policies, and standard operating procedures. The objectives of the audit were also to evaluate processes for inventory, issuance, and monitoring of the Information Technology (IT) Equipment. Lastly, to evaluate the implementation status of the eight outstanding audit recommendations from the original audits completed in 2012 and 2016.

Status: Complete

As of October 2023, there were 24 Agency P-cards issued to the IT Department: 22 issued to IT staff, 2 department P-cards: one for IEUA and IERCA. For the review period of September 1, 2022, to August 31, 2023, there were 595 P-card transactions made by IT staff, totaling $508,484 (includes both IEUA and IERCA).

IA selected several P-card transactions made by the IT department for additional review. The bullet points below provide a summary of the audit recommendations. The report attached provides the details of the observations.

- Develop a process for tracking, issuing, inventorying and establish overall accountability of IT equipment, including all iPads purchased from the various vendors used, all IT technology equipment and specialized IT equipment such as radios, drones, wires and other.
- Ensure the Agency's policy is enforced that requires all departments to coordinate with IT when electronic equipment is purchased to ensure equipment meets Agency standardization and approval to connect to the business network.
- Develop a process to ensure IT equipment purchased on the P-cards or through other procurement methods, which meets the Agency's capitalization thresholds are reported to Finance to ensure these are recorded and capitalized in the Agency's financial system (SAP).
- Develop guidelines related to the proper use of expense accounts.
- Ensure inventory asset listings for IT and Operational Technology (OT) equipment are current, accurate and complete, and contain key identifying information that allow the IT and OT equipment to be verified, inventoried and reconciled with other Agency asset lists.
- Develop a process to perform a physical inventory of all IT assets to validate the assets existence and working condition.
- Develop a process to reconcile the various assets lists for IT and OT equipment (from IT records to financial records in SAP)
- Review and update Agency Policy A-09
- Develop standard operating procedures (SOPS) for the various processes related to IT equipment.
- Results of the 2016 Recommendations: 7 recommendations are considered Not Implemented and 1 recommendation is considered No Longer Applicable.
- Develop a process to periodically review and ensure all P-card users have a current agreement on file.
- Develop and reinforce the guidelines for the supporting documentation for P-card transactions, especially those that require single or sole source justification.
- Develop guidelines for the documentation required for single transaction limit increases
- Reinforce guidelines related to the required supporting documentation that should be uploaded to US Bank.

Project:

Audit Committee and Internal Audit Unit Charters

Scope:

To review and make necessary updates to the Internal Audit Unit (IA) Charter and the Audit Committee (AC) Charter as required to ensure they meet best practices and the Agency's goals.

Status: Complete

The purpose of the AC and IAU Charters is to document the purpose, authority, and responsibilities of each. IA's role is to further ensure that the responsibilities of the AC are fulfilled. According to best practices, the authority of the IAU should be documented in a Charter to align the role of the department in a way to provide independent assurance and assistance to the Board and Agency Management in ensuring organizational goals are achieved. Best practices and both Charters require that IA completes a review of the Charters annually and makes necessary edits or changes. At this time, IA does not propose any changes. IA is bringing the charters in final form under a separate cover. If the committee agrees, the Charters will be finalized.

Project:

IA Quality Control Review of the FY 2022/23 Annual Comprehensive Financial Report (ACFR)

Scope:

Annually, prior to the Board approval of the ACFR, IA completes a quality control review of the various schedules and sections of the ACFR. The role of IA is one of an added quality control review to ensure a professional presentation of the financial information. IA reviews to ensure financial information transfers accurately between the financial schedules and narratives including from prior year to current year, and check for recommendations made by Government Finance Officers Association (GFOA).

Status: Complete

Specifically, IA's review includes the following audit procedures:
- Verified that the FY 2023 amounts and totals on the financial statements were transferred accurately from the FY 2023 Trial Balance.
- Recalculated the FY 2023 totals on all financial statements for mathematical accuracy.
- Checked titles and years to ensure updates were made for the years they correspond to.
- Reviewed narratives for completeness, spelling and grammatical accuracy.
- Reviewed all sections of the ACFR to ensure consistency and a professional presentation.

IA's report is included under a separate cover and provides details of the review.

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

IA has met with vendors and 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.

Project:
Collaboration with the Information Technology Department –Cybersecurity Assessment

Scope:

To work closely with the Information Technology Department to assess the Agency's cybersecurity framework by asking various internal control questions from an internal audit perspective. To evaluate responses provided by the IT team and determine if additional audit work needs to be planned.

Status: In Progress

IA met with the IT Department to go over internal control questions. The IT Department indicated they will provide completer responses to our questions. The department has requested additional time to provide written responses. We will continue to work with the department to request information and understand the responses provided to provide a complete assessment of the internal controls over cybersecurity risks.

Project: Final Report: Review of Agency COVID-19 Expenses
Scope:
The original evaluation reviewed the expenses incurred by the Agency in response to the ongoing global pandemic (COVID-19). Expenses include costs incurred to comply with health guidelines, prevent the spread of COVID-19, transition employees to work from home, ensure proper on-site precautions and protect Agency personnel and the public. The objectives of the review were to evaluate if the expenses follow proper internal controls, contain the required supporting documentation, and meet compliance requirements according to Agency policies and procedures
Status: In Progress
IA will contact the Grants Unit to evaluate reportable updates. This coordination/report will be scheduled through the Annual Audit Plan as required. A final report will be presented to the Audit Committee when final financial information is available.

Report of Open Audit Recommendations
Scope:
To evaluate the implementation status of the outstanding recommendations. The Internal Audit Unit (IA) Charter requires IA to follow up on the status of outstanding audit recommendations to determine if corrective actions have been implemented. A recommendation is considered "outstanding" if it requires corrective action to address the finding and risk identified. IA performs follow-up reviews to ensure that risks have been addressed and the recommendation is cleared/satisfied when corrective actions are implemented. Follow-up reviews are scheduled through the Board-approved Annual Audit Plan. Agency Management supports the implementation efforts of the recommendations previously provided and/or the development of alternative controls to address the original risks identified.
Status: On-going
As of December 2023, there are 144 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	1
Follow-Up – IT Equipment Audit – FAD	December 5, 2016	6
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: • Chemicals (November 24, 2021) • Engineering & Construction Management (February 24, 2022) • Planning & Resources (May 26, 2022) • Materials & Supplies (December 2022) *(Open recommendations as of December 4, 2023)*	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
2023 Review of Agency's Purchasing Card Program – Food, Training and Travel Purchases	August 31, 2023	12
2023 Petty Cash Audit and Follow-Up Review	September 1, 2023	8
Regional Contract Review – Final Audit Report (planned for full implementation with the renegotiation of the Regional Contract)	December 16, 2015	31
Total Outstanding Audit Recommendations		**144**

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

Summary

As of December 2023, 144 recommendations remain outstanding:
- o 31 relate to the renegotiation of the Regional Contract (to be evaluated next quarter)
- o 21 relate to needed updates to Agency policies

Eligible for follow up evaluation:
- o **12 recommendations relate to ongoing P2P follow-up reviews completed quarterly**
- o **80 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 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 a document published by the Institute of Internal Auditors, the Internal Audit Foundation, titled *2024 Risk In Focus – Board Briefing.* The report is a summary of the results of a recent survey among various internal audit professionals asking what the greatest risks and threats are to organizations in North America. The 10-page report provides a comprehensive summary of the risks internal auditors should focus on in 2024. Among the top risks, in order of risks, the top five include: cybersecurity, human capital, regulatory changes, market changes and business continuity. The report provides a quick view of each of the risks identified. The complete report is attached.

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:

- 2023 IIA Ignite Conference
- Granicus Peak Training October 2023
- Systems Thinking (Virtual Workshop)

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, 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*
- *Monday, December 9, 2024 – Regularly Scheduled Audit Committee Meeting*

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

Seen here: Dominic Palencia, Internal Auditor volunteered at the Meet the Firms event held at California State University of San Bernardino to represent the Institute of Internal Auditors, Inland Empire Chapter and share his career path as an internal auditor and as an auditor at IEUA.

Shown below: Teresa Velarde and Sapna Nangia, attended the IGNITE audit conference delivered they the Institute of Internal Auditors in Las Vegas. Sessions attended included topics related to trending audit risks, fraud, cybersecurity, ethics, internal audit talent and more.