
Recommendations for Improving Public Water Districts' Accountability

Issue

The Grand Jury received several complaints about managers and directors of the public water districts serving the residents of Sacramento County. In addition, the *Sacramento Bee* published newspaper articles and letters to the editor regarding various abuses found within some districts. As a result, the Grand Jury decided to selectively investigate autonomous water districts.

Method of Investigation

- Newspaper articles and letters to the editor
- January 8, 2003 Grand Jury letter to eight water districts requesting specific information regarding their fiscal operations
- Team visits to each of eight water districts requesting further information
- March 20, 2003 Grand Jury letter requesting copies of information provided to the *Sacramento Bee*
- Analysis of water district responses
- Meeting with the Sacramento County Director of Finance
- Water Purveyors, a report of the Sacramento County Department of Finance
- Meetings with district managers and board members of selected water districts

Background and Facts

From the Water Purveyors report:

“Water for domestic, incidental and irrigation uses is supplied by 25 different purveyors that are basically classified into 5 different categories: dependent water districts, autonomous water districts (which are independent special districts), cities, private, and mutual water companies. The operational structure among water agencies is very similar. Each generally has a system of wells or surface water source and distribution system designed to serve the needs of the service area.”

The Grand Jury focused only on independent special water districts.

“Autonomous Water Districts

There are ... (various) types of autonomous water districts in Sacramento County: irrigation districts, ..., community service districts, and County water districts.

Irrigation Districts

There are 4 irrigation districts located partially or wholly in Sacramento County. They include Carmichael Water District, Fair Oaks Water District, Citrus Heights Irrigation District, and Galt Irrigation District. The enabling legislation for irrigation districts is found in Section 20500 et seq. of the Water Code (California Irrigation District Act).

Community Services Districts

The San Juan Suburban Community Services District provides retail and wholesale water to the northeastern sector of Sacramento County. Rancho Murieta Community Services District provides its own water system. Water is taken from the Cosumes River, is stored, treated and reclaimed for irrigation.

County Water Districts

Five county water districts were formed pursuant to the California Water District Act (Water Code Section 30000 et seq.). They are the Northridge Water District, Arcade Water District (consolidated into Sacramento Suburban Water District on February 1, 2002), Florin County Water District, Del Paso Manor County Water District, and the Rio Linda Water District.

The name ‘county water district’ is a misnomer because it implies a dependent district of the county government. However, all are completely autonomous with elected governing bodies.”

The eight autonomous water districts selected for investigation by the Grand Jury are as follows:

- Carmichael Water District
- Fair Oaks Water District
- Citrus Heights Water District
- San Juan Water District
- Sacramento Suburban Water District
- Florin County Water District
- Del Paso Manor Water District
- Rio Linda/Elverta Community Water District

On January 8, 2003, the Grand Jury sent a letter to each of these districts requesting the following specific information on their fiscal operations:

1. Does your district have written policies on staff travel? Please provide a copy of that policy.
2. Who has the responsibility to audit travel records to assure compliance with those policies?
3. How are district directors compensated for time spent on district business? Please include forms of compensation other than cash, i.e., meals, use of vehicles, etc.
4. What authority determines which water district industry conferences directors will attend? When more than one director attends a conference, what justification is needed to provide for more than one participant?
5. What practices exist for directors' travel? Please provide a copy.
6. When was the last travel audit performed on your district? Please provide a copy of that audit.
7. Are directors attending water industry conferences required to submit reports to the water district? Is the report written or oral? Is the item placed on the district's meeting agenda?
8. What is the district's policy on the acceptance of gifts by district directors and staff personnel? Please provide a copy of the policy.
9. What is the district's policy on the payment of overtime to management personnel? Please provide a copy of that policy.

After reviewing the responses, Grand Jurors interviewed the general managers and/or directors to elicit additional information. The following is a summary of what the Grand Jury found:

Carmichael Water District

Carmichael Water District is an urban water supply serving 11,063 customers in the Carmichael area with a population of 40,000 in a 6 square mile area. Water sources include 9 ground water wells (37%) and surface water supplied from the American River (63%). The average monthly rate for unlimited water is \$39.80 for one connection of a ½ acre or less. The district's operating budget for 2002-2003 is \$7.9 million. The general manager's annual salary is \$100,614 and the assistant manager's annual salary is \$82,000.

The district's written response to questions by the Grand Jury:

1. Carmichael Water District has a written travel policy for staff and the board of directors (Policy #4080).
2. The district's Finance Office reviews travel receipts and expense reports.
3. Board members receive \$144.70 per meeting with a maximum of 10 meetings per month. In 2001, compensation for board members varied from \$2,459 to \$8,826, including travel reimbursements for conference attendance. Board members do not receive fringe or retirement benefits.

4. The board of directors annually reviews a list of water industry conferences and training seminars and approves attendance of them at a public board meeting. Meetings not previously reviewed are placed on the board's agenda of a regularly scheduled meeting.
5. Board members are required to follow Policy #4080, which includes a "Conference Expense Policy," adopted on September 2, 1986 requiring a written or oral report be made to the board at a public meeting.
6. The district has no separate travel audit, but includes travel as part of the general annual audit.
7. Board members are required to follow Policy #4080.
8. The district has a conflict of interest policy for employees (Policy #2170); board members are not specifically mentioned in the policy. The omission is to be remedied and included in Policy #2170.
9. Management employees do not receive overtime pay. However, they receive "administrative leave" of one day per month as compensation for hours worked in excess of 40 hours per week (Policy #2040).

It appears that Carmichael Water District has well defined travel policies and financial oversight. The board of directors meets twice a month and is actively involved in the water industry. There appears to be no personal use of district funds. The district does not use credit cards and has established accounts with its vendors.

Fair Oaks Water District

Fair Oaks Water District is a medium-sized water district within Sacramento County. Although referred to as an irrigation district, it's actually an urban water supplier serving 39,191 customers in the Fair Oaks and Orangevale areas. Its service area is 9.45 square miles and the source is primarily surface water from the American River and 7 ground water wells. The district purchases treated water from San Juan Suburban Water District. The average monthly residential rate for one connection and unlimited water is \$35.83. The district's operating budget is \$6,963,900.00. The general manager's annual salary is \$160,551.14.

The district's written response to questions by the Grand Jury:

1. Fair Oaks Water District has a written travel policy for staff and the board of directors (Policy # 2060 and Policy #2070).
2. The district manager, accounts payable, and controller audit the travel receipts and expense reports. Accounts Payable is responsible for reviewing expense reimbursement forms and credit card statements for receipt documentation and business purpose.
3. Board members receive \$100 per meeting with a maximum of one meeting per day and 10 meetings per month. In 2001, compensation for board members varied from \$3,385.42 to \$6,200.00, which included travel reimbursements for conference attendance. Board members do not receive fringe or retirement benefits.
4. According to Policy #2070, the board authorizes travel for the general manager; the general manager authorizes travel for the district staff.

5. Some board members are committee members of various water associations and attend more meetings than other board members.
6. The district controller audits all travel expense claims. Receipts are required for all travel related expenses; in addition, credit cards are issued to board members and charges must be verified each month.
7. After attending water association meetings, board members are required to report back at the next meeting.
8. Board members are prohibited from accepting gifts by the district's Business Ethics and Conduct Policy.
9. District managers do not work overtime and are expected to complete all necessary duties.

Minutes of the board meetings indicate they meet monthly. They have policies and procedures addressing staff and management conduct that are updated frequently. Board members are active in regional and national associations.

Citrus Heights Water District

The Citrus Heights Water District covers 12.16 square miles and serves a population of 65,135. It has 19,118 service connections. The district provides 17,000-acre feet of treated surface water from the Suburban Community Services District and 2296 acre feet of ground water from 3 wells. The average monthly rate is \$21.67. The 2002-2003 operating budget is \$5,611,925 and the capital budget is \$3,565,689. The general manager's annual salary is \$122,280. The board of directors consists of 3 members serving 4-year terms.

The district's written response to questions by the Grand Jury:

1. Citrus Heights Water District has a written policy on travel that applies to both directors and officers. Travel is limited to education and training functions that are beneficial to the district. Within those limits, board members attend meetings of their choosing. The board must approve attendance to out-of-region meetings.
2. The district's treasurer is responsible for auditing travel records.
3. Each director receives \$127.33 per diem with a maximum of 10 days per calendar month.
4. Directors determine their need to attend specific conferences.
5. Travel by air, train or bus is permitted and shall not exceed or is reimbursed beyond the cost of an unrestricted round trip coach air fare plus associated ground transportation and parking expenses.
6. The last audit was performed in January 2003.
7. Written or verbal reports on conferences attended are required to be presented at public meetings.
8. Policy is consistent with standards of the Fair Political Practices Commission.
9. Management is considered "exempt" and is not entitled to overtime pay.

San Juan Water District

San Juan Water District serves eastern Sacramento County and western Placer County. It sells wholesale water to Fair Oaks Water District, Citrus Heights District, Orangevale Water District and to the City of Folsom. The district supplies water to approximately 160,350 customers in the northeast area including Orangevale, Citrus Heights, Fair Oaks and South Placer County and the City of Folsom. Its service area is 46.6 square miles, with 33,000 acre feet of water rights, a 24,000 acre feet contract with the Bureau of Reclamation, and a 25,000 acre feet contract with Placer County Water Agency. The average monthly gravity rate is \$36.66. In April 2003, the cost increased by 8 percent and in June 2003, an additional 12 percent increase was scheduled. The district's operating budget is \$9,517,839. The general manager's annual salary is \$127,000 and the assistant manager's annual salary is \$111,000.

The district's written response to questions from the Grand Jury:

1. San Juan Water District has written policies for travel for staff and the board of directors. Reimbursement for use of personal vehicles is limited to a 200-mile radius of the district. Beyond that, travel reimbursement may not exceed the cost of the equivalent round-trip airfare to the same destination, except as approved by the general manager for a specific trip (Policy, Chapter Eleven 11.1).
2. The department manager to the general manager approves travel reimbursement expenses submitted with an expense report and appropriate receipts. Travel/hotel expenses are reimbursed by statement or receipt. Meals are reimbursed at per diem rates.
3. Board members receive \$100 per meeting, with a maximum of 10 meetings per month. In 2001, compensation for board members varied from \$4,200 to \$6,877, including travel reimbursements for conference attendance. Board members do not receive fringe or retirement benefits. If they use their private car, board members are reimbursed for mileage. Board members do not use district cars.
4. The board of directors authorizes conference attendance through Resolution 92-04.
5. The board of directors complies with Chapter 11 of the district's policy manual regarding "Employee Business Expenses." In addition, Resolution 92-04 authorizes conference attendance.
6. The district does not have a specific process for auditing travel other than the annual audit and the policy requirements which require the financial office to review employee expenses.
7. Board members are not required to submit written reports, but oral reports are given at regularly scheduled board meetings. The board of directors is currently reviewing a revision of policies about conference and workshop reporting.
8. The district is bound by the Fair Political Practices law, which is incorporated into its policy regarding "Standards of Conduct and Employee Discipline."

9. Payment of overtime is not allowed for management personnel. There is a program termed "pay for performance" available to management, supervisory, confidential, and professional employees. It is a yearly incentive program which has the potential of being a bonus of up to 10 percent of base wages for the assistant general manager, supervisors, confidential and professional employees. The general manager's bonus is determined by the board of directors.

An area of Grand Jury concern is employee retirement. The district pays the entire cost for all regular employees. Retirement is computed on the highest earning year and is based on three percent at age 60 as of September 2002. These figures represent an increase of 50 percent over the previous policy of two percent at age 55 and will cost the district approximately \$450,000 the first year.

Sacramento Suburban Water District

The Sacramento Suburban Water District was formed in February 2003 with the consolidation of Northridge Water District and Arcade Water District. It covers 36 square miles, serves a population of 180,000, and has 46,000 customers. The district has rights to 26,064-acre feet from the City of Sacramento water entitlement and has a contract with Placer County Water Agency to purchase up to 29,000 additional acre-feet of surface water per year. In 2002, the district's 87 wells produced 25,121 acre-feet of water, and it purchased 16,923-acre feet.

Fiscal Data:

2002-03 Budget:	\$19,072,055
2003-04 Budget:	\$19,204,463

Monthly Rates:

Arcade Service Area:	\$41.88 (average residential for 1" connection, 10,000 sq. ft. parcel, unlimited water)
	\$22.34 (average residential for ¾" connection, 10,000 sq. ft. parcel, unlimited water)
Northridge Service Area:	\$28.61 (average residential for 1" connection, 10,000 sq. ft. parcel, unlimited water)
	\$26.27 (average residential ¾" metered service)

The district's written response to questions from the Grand Jury:

1. The Sacramento Suburban Water District recently adopted a new manual, which includes staff travel policies.
2. Staff expense reports are submitted to the direct supervisor, who, in turn, submits the report to the general manager for approval. The district's auditors may further examine travel records during year-end audits.
3. Each director is entitled to \$100 per day for meetings or other district related functions, up to 10 days per month.

4. The district encourages directors to attend conferences, seminars, and other meetings of interest to the district. The board has given its members the discretion to determine which industry conferences they attend.
5. In December 2002, the district adopted a policy for directors' compensation and expense reimbursement.
6. An independent auditor completed two reports dated January 9, 2003 and March 10, 2003, which have been made available to the public.
7. Directors are not required to submit formal written reports of water industry conferences they attend; however, a list of meetings they attend is included on the agenda, and directors may give informal reports at that meeting.
8. The district has adopted the Fair Political Practices Commission Code.
9. The general manager does not receive overtime compensation.

The newly created Sacramento Suburban Water District has undergone close scrutiny by investigative reporting in the local newspaper, independent auditors, the newly formed board of directors. It appears that the consolidation was difficult and sometimes painful; however, members of the Grand Jury who met with the interim manager, the recently appointed new general manager and others, were impressed with their response to the auditor's reports and to the new policies and procedures being implemented.

Florin County Water District

Florin County Water District in the southern part of Sacramento County serves a population of fewer than 10,000, with approximately 2250 customers. The district has ten wells to serve their clients. Residential accounts are not metered; all commercial accounts are metered. The residential rate is \$7.50 per month billed bi-monthly. The district's annual budget is just under a half million dollars, with a total revenue for 2002-2003 estimated at \$543,650.

The budgeted positions are General Manager, Billing Clerk/Receptionist, Office Manager, and a Certified Grade II Distribution Operator. The pay scale for the general manager is \$60,000 annually. The district's annual payroll budget is \$160,000. The board of directors consists of five members. Board members are local businesspersons compensated at the rate of \$100 per meeting once per month. District credit cards are used for buying small hand tools and parts for backhoes, trucks, and other district equipment and pumps.

The Grand Jury received a complaint regarding nepotism within the district, and in fact, three relatives are employed by the district. However, the Grand Jury found no evidence that the district's operations were negatively affected by this situation.

The district's written response to the questions of the Grand Jury is as follows:

1. Florin County Water District has no written policy regarding staff travel; however, a "travel expense report," with expense receipts, was used to report the general manager's travel expenses for attendance to the National Rural Water Association

- Conference and board meeting, of which he is a member. The National Rural Water Association reimbursed these expenses to the district.
2. Travel records are audited by an independent auditor during the district's annual audit.
 3. District directors are compensated \$100 per meeting, with a maximum of three meetings per month. Florin County Water District does not provide any other compensation.
 4. A board member wishing to attend a specific conference has their request placed on the meeting agenda and it is voted on at that time. For the past seven years, no board member has attended any industry conferences.
 5. The district does not have a travel policy.
 6. The district does not have a travel policy.
 7. The district does not have a travel policy.
 8. The district complies with the requirements of the Fair Political Practices Commission Reform Act concerning the acceptance of a gift or gratuity.
 8. Florin County Water District has only one management employee, the general manager. The general manager is an "at-will" exempt employee; he receives no pay for overtime.

Although the general manager told the Grand Jury the district had no travel policy, review of the submitted materials did include a policy on travel. Apparently the general manager is not aware of this policy.

Del Paso Manor Water District

The Del Paso Manor Water District is located north of the American River and almost completely surrounded by the Sacramento Suburban Water District. The district takes up about one square mile and has 1790 residential and commercial customers. The average water bill for a residential customer is \$11.15 per month. There are five members on the board of directors. The district's general manager earns a salary of \$74,441, plus benefits.

The district's written response to the Grand Jury's questions follows:

1. Del Paso Manor Water District has a written travel policy.
2. The general manager audits the monthly travel and meeting expenses, which are confirmed by the annual audit.
3. Directors receive \$200 per meeting, with a maximum of 10 meetings per month.
4. Upcoming meetings are presented as an item on the board's meeting agenda. The board discusses the meetings and decides on attendance.
5. The district has defined travel procedures and practices.
6. The general manager audits each travel reimbursement requests, followed by full board review at the next regular meeting, in addition to the annual independent audit.
7. Directors and staff are required to report on all conferences attended at the next regular board meeting.
8. The board has adopted the Fair Political Practices Commission codes.
9. There is no overtime pay for management personnel.

Board of Directors' meeting reimbursement is \$200 per meeting. This amount is high when compared to other water districts. The reimbursement for meeting expenses through September 2002 is \$9,000. The previous year's meeting reimbursement was \$12,000.

The district has a policy of paying the \$200 daily meeting reimbursement for one board member only to attend a conference. Other board members attending the same conference are reimbursed for their expenses and do not receive the \$200. In fact, the 2002-2003 budget of \$17,000 for professional meetings exceeds the entire year's budget of \$14,500 for director fees.

Rio Linda/Elverta Community Water District

The Rio Linda/Elverta Community Water District covers 17.7 square miles and serves a population of 13,100. The water supply and distribution facilities consist of 11 wells and 58.82 miles of distribution mains. The district pumps approximately 3300 acre-feet of water annually to 4300 customers. The high school and many small ranchettes within this district are on well water. The board of directors consists of five members elected at large. The district has eight employees. The 2002-2003 operating budget is \$1,192,800. The annual salary of the general manager is \$96,000.

One of this district's unique features is that it is 100 percent metered. The district's 3-tier rate structure encourages customers to conserve. The average residential water bill is about \$20 to \$25 per month. Customers are billed bi-monthly. The base rate is \$13.79, plus 43 cents per hundred cubic feet of water depending on usage. There is a fee schedule of approximately \$4,600 to convert from private well water.

The district's written response to the Grand Jury's questionnaire is as follows:

1. Rio Linda/Elverta Community Water District has a written travel policy.
2. The general manager approves travel for district employees. The board reviews and approves a monthly report itemizing each check issued for reimbursement.
3. Each director receives \$100 for each meeting attended, up to a maximum of \$600 per month.
4. Directors may attend conferences of their choice. To those organizations which the district has membership, the board president appoints annually one director as a district representative and another as an alternate. The district only pays the expenses of the appointed representative or alternate who attends.
5. Each director receives \$100 per day when acting as the district's appointed representative or alternate. The district pays travel expenses incurred by a director if expenses for the meeting are approved in advance.
6. The district does not conduct a specific audit for travel expenses alone; however, travel expenses are included in the annual independent audit. The board reviews and approves a monthly report itemizing each check issued for reimbursement. The annual district meeting and conference budget for 2003-2003 is \$6,200 for all directors and district employees.

7. Directors attending conferences report back to the board at the monthly board meeting. The agenda has a regular item entitled “Board/Committee Activities.”
8. Gratuities are not allowed, and the district’s “Conflict of Interest Code” reflects California Law regarding the disclosure of financial information, including gifts.
9. The general manager does not receive overtime compensation. Two supervisory employees receive compensatory time.

Findings and Recommendations

Finding #1. District directors on the whole do not have financial or accounting backgrounds. They rely on their audit reports to ensure that their district’s operation is fiscally sound.

Recommendation #1a. The district should provide to auditors all district policies and procedures before an audit is performed. Auditors should verify that all disbursements made during the year comply with the district’s procedures. The audit should include a random sampling of travel expense reports, including credit card usage.

Recommendation #1b. The Sacramento County Director of Finance should schedule regular, selective reviews of district audit reports for completeness and financial impact on ratepayers, and report any anomalies to the respective water district board of directors.

Recommendation #1c. The California State Government Code Section 2609 should be amended to eliminate Section 2609(f) providing for audits to be performed less frequently than once a year. The code should require all districts to perform annual audits.

Recommendation #1d. The California State Legislature should enact a statute requiring the State Controller to independently verify accuracy and completeness of district audits.

Recommendation #2. Auditors should confirm water districts’ compliance with IRS rules, that all income is being reported, that boards actively oversee payments to management, and that all financial records are maintained for at least five years.

Recommendation #3. In an effort to obtain a thorough and professional annual audit, auditors should be changed every three years.

Recommendation #4. To increase public awareness of district activities and to provide easy access to this information, public water districts should establish and maintain a Web site with links to their audit report, district travel policies and travel expenses.

Recommendation #5. Notices of public hearings for rate increases should be clear and concise enabling customers to understand easily the reasons and justifications for such increases.

Finding #2. The Grand Jury finds that an electorate, kept unaware by a district that fails to “give light” to its actions, cannot properly evaluate the performance of district personnel. These

voters elect boards to oversee the operation of the district. The board in turn hires a general manager to manage the district. It is the close relationship between the board and the general manager that has potential for misuse of district funds. We find that the use of district credit cards may enable the misuse of district funds; however, it is the culture within the district that permits the abuse. District managers and board members should be aware of what is and what is not proper. Golf at district expense is not proper. Expensive restaurant meals charged to the district is not proper. Increasing the retirement benefits to a level primarily given to public safety personnel to benefit a retiring general manager is not proper.

Recommendation#2a. These practices should stop immediately.

Recommendation #2b. Expenses submitted for reimbursement or charges on district credit cards that exceed California State per diem allowances or that do not fall within permitted district expense policies should be disallowed, published on the district's Web site and discussed at the next board meeting.

Finding #3. Some written practices and policies, which vary from district to district, may be outdated.

Recommendation #3. Each district general manager and board of directors should review and update bi-annually practices and policies.

The Grand Jury also finds that several of these water districts are efficiently run by dedicated people who serve the public interest well. However, it is the opinion of the Grand Jury that reform and consolidation of many of these districts would be in order.

Response Required

Penal Code Section 933.05 requires that specific responses to both the findings and recommendations contained in this report be submitted to the Presiding Judge of the Sacramento Superior Court by September 30, 2003 from:

- Carmichael Water District Board of Directors
- Fair Oaks Water District Board of Directors
- Citrus Heights Water District Board of Directors
- San Juan Water District Board of Directors
- Sacramento Suburban Water District Board of Directors
- Florin County Water District Board of Directors
- Del Paso Manor Water District Board of Directors
- Rio Linda/Elverta Community Water District Board of Directors
- Sacramento County Director of Finance