



Rancho Murieta Community Services District

15160 Jackson Road • P.O. Box 1050 Rancho Murieta, CA 95683 • 916-354-3700 • Fax 916-354-2082

Visit our website www.rmcsd.com

June 7, 2023

By U.S. Mail

The Honorable Michael Bowman
Presiding Judge
Sacramento County Superior Court
720 9th St.
Sacramento, CA 95814

By Email

Ms. Erendira Tapia-Bouthiller,
Grand Jury Coordinator
TapiaE@saccourt.ca.gov

Re: Response to 2022-2023 Grand Jury Report
Rancho Murieta Community Services District

Judge Bowman:

Under Penal Code sections 933 and 933.05, this constitutes the joint response by Timothy Maybee, President of the Board of Directors of the Rancho Murieta Community Services District, and the Board of Directors of the Rancho Murieta Community Services District (collectively, "Respondents") to the above-referenced report. The Board of Directors approved this response at its June 7, 2023 regular meeting by a [unanimous vote].

As the Grand Jury recognized, the District has already taken measures to address many of the concerns presented in the report. Respondents and our customers appreciate the Grand Jury's input and Respondents will use it to help improve our accounting systems and other financial aspects at the District.

Responses to Findings

F1 The District Board has lost the trust of the community to make prudent financial decisions.

Respondents disagree partially with this finding. Respondents agree the District faces significant issues involving its legacy accounting system and past financial reports. As the Grand Jury acknowledged, Respondents have taken the following actions to address these concerns:

Serving the Community for over 30 years

Board of Directors: Tim Maybee, President • Martin Pohll, Vice-President • Randy Jenco • Linda Butler • Martin Pohll • Stephen Booth
General Manager • Mimi Morris

1. Respondents approved, and the District has begun to implement, the replacement of the District's legacy billing and accounting systems with an industry-standard Enterprise Resource Planning ("ERP") system.
2. Respondents retained municipal accounting experts with the Pun Group to unwind the District's legacy accounting issues and assist the District in preparing for future audits and addressing the District's capital reserve needs.

Although Respondents have taken these actions, they are in process and take time to produce results. Respondents also agree that the District faces difficult decisions concerning making the best use of its limited resources. Respondents have taken the following actions to address these concerns:

1. In June 2022, Respondents proposed fee increases for water, wastewater, and solid waste services. However, District customers submitted a majority protest against these increases under Proposition 218 and Respondents could not adopt them.
2. In November 2022, Respondents proposed a security services special tax to ensure that District security operations would be funded in the future. However, District voters did not approve this measure.
3. Respondents are reviewing the continued viability of current security service levels in light of the insufficiency of existing special tax stream, competing priorities for limited property tax revenue, and District voters not approving new special tax revenues to support security.

F2 The current accounting system is inadequate to meet the legal requirements related to financial reporting to the public which has resulted in two legally required financial audits being overdue.

Respondents disagree partially with this finding. Due to extensive staff turnover in the accounting department, staff did not know how to use the accounting system properly.

F3 The late audits, combined with the unreliable existing accounting system, have created an environment that exposes the District to a high risk of fraud.

Respondents disagree wholly with this finding. Respondents agree the District faces significant financial challenges that Respondents have taken actions to address as described in response to Finding 1 above. However, there has been no evidence or allegations of fraud involving District funds. The District has taken steps to strengthen internal controls to protect against fraud.

F4 The District Board cannot expect to recover public trust sufficient to propose any tax/fee increases until it replaces its antiquated billing and accounting system to produce reliable billings and financial records.

Respondents disagree partially with this finding. Respondents agree the District faces significant financial challenges that Respondents have taken actions to address as

described in response to Finding 1 above. These actions take time to produce results. In the meantime, due to unprecedented inflation and increased costs, the cost to provide essential services has increased. Therefore, it is necessary for the District to propose a modest rate increase in FY 2024 to maintain operations while it continues working on implementing the actions described in response to Finding 1 above.

F5 The District has at times taken actions against staff that has interfered with the operation of the District.

This finding is vague. Based on statements in the report, Respondents interpret it to mean that the District has taken improper or ill-advised employment actions in the past that have affected District operations. Based on that interpretation, Respondents disagree wholly with this finding. It is important to clarify that Respondents only have employment authority over the District General Manager. Respondents have no employment authority over subordinate District employees as all such authority is delegated to the District General Manager. As to any employment actions taken against subordinate staff by past District General Managers, Respondents may not comment on confidential personnel matters, which includes all such employment actions.

F6 High employee turnover indicates poor employee retention that has interfered with the operation of the District.

Respondents agree with this finding. Employee turnover for a variety of reasons has been a significant challenge for the District.

F7 The lack of an effective succession strategy has impaired the ability of the District to maintain adequate competent staff which has resulted in the loss of critical accounting system knowledge among the District staff.

Respondents disagree partially with this finding. Although employee turnover within the accounting department has been a significant challenge for the District, Respondents believe there are systemic issues with the District's legacy accounting system that would need to be addressed regardless of turnover amongst District staff. The actions described in response to Finding 1 above are intended to address these issues.

F8 The lack of an updated Capital Reserve Policy has contributed to poor management and inadequate Capital Reserve.

Respondents disagree partially with this finding. As discussed in response to Finding 1 above, Respondents believe updating the District's capital reserves policy is important, but it is not possible to address this issue until the District's larger legacy accounting issues have been addressed.

F9 The use of County Property Tax funds to subsidize its growing security costs without raising the security fees has jeopardized the financial stability of the District.

Respondents disagree partially with this finding. Respondents agree that, in recent years, security costs have exceeded available existing security special tax revenues. However, Respondents disagree that this issue has jeopardized the financial stability of the District. As discussed in response to Finding 1 above, Respondents are reviewing the continued viability of current security service levels in light of the insufficiency of the

existing special tax stream, competing priorities for limited property tax revenue, and District voters not approving new special tax revenues to support security.

F10 The Capital Reserves are underfunded by over \$10 million, jeopardizing the financial stability of the District.

Respondents disagree partially with this finding. Respondents agree that capital reserves are currently underfunded. However, Respondents disagree that this issue has jeopardized the financial stability of the District. As discussed in response to Finding 1 above, Respondents believe updating the District's capital reserves policy and adequately funding District reserves are priority issues, but it is not possible to address these issues until the District's larger legacy accounting issues have been addressed.

F11 The District has inappropriately subsidized the cost of reclaimed water to RMCC.

Respondents disagree wholly with this finding. The District's current reclaimed water operations are designed to comply with regulatory and legal requirements. First, the District's wastewater permit has long prohibited the District from discharging treated effluent from the District's wastewater treatment plant to waterways. The only approved disposal method for District treated effluent is irrigation within the authorized areas described in the permit. To remain in compliance with its wastewater permit, the District must have a reliable irrigation user for its treated effluent. The District addresses these constraints by disposing of its treated effluent by providing it to the country club for irrigation uses. Second, the District and country club are parties to a long-term agreement dated May 16, 1988 that requires the District to provide its treated effluent to the country club. The agreement does not contain terms authorizing Respondents to terminate the agreement, charge for the treated effluent, or sell the effluent to other parties.

F12 A perceived conflict of interest exists in the community due to a close relationship between the District, the RMA and the RMCC and their respective Board members.

Respondents disagree wholly with this finding. Respondents comply with the District's Policy No. 2005-6 which prescribes ethical rules for Respondents and prohibits conflicts of interest. Respondents are unaware of any legal conflicts of interest pertaining to Respondents, the homeowner association's Board of Directors, and the country club.

Responses to Recommendations

R1 The District board should upgrade the District's billing and accounting system with the new Enterprise Resource Planning (ERP) accounting system by January 1, 2024.

This recommendation will be implemented. The current expected timeframe for the first phase of ERP implementation, Utility Billing, is completed on May 1, 2023. The current expected timeframe for the second phase of ERP implementation June of 2024.

R2 The District Board should insure that the audit for 2020-21 is completed no later than April 1, 2023, and the FY 2021-22 audit by September 1, 2023.

This recommendation will be implemented. The current expected timeframe for the FY 2020-2021 audit is September 30, 2023 and the FY 2021-2022 audit is June 2024 .

R3 The District Board should task its ERP consultant to implement a program to fully train District accounting staff on this new accounting system and prepare new accounting manuals acceptable to the General Manager or designee by January 1, 2024.

This recommendation will be implemented. The current expected timeframe for this phase of training is January 2024.

R4 The District Board should retain a controller to ensure proper accounting procedures are followed and the integrity of the accounting data is maintained by January 1, 2024.

This recommendation will be implemented. The current timeframe for this hire is September 1, 2023.

R5 The District needs to ensure invoices are tracked within the accounting system and that the accounts payable listing be generated on a monthly basis by September 1, 2023.

This recommendation will be implemented. The current expected timeframe for this action is August 1, 2023.

R6 The District should create an ongoing training program for the Board and staff regarding the Brown Act compliance, accounting procedures, and work place practices and behaviors including prevention of harassment in the work environment. This should be fully implemented in 2024.

This recommendation has been implemented. The District addresses Brown Act compliance and training for the Board of Directors and staff through legal counsel and as a member of the California Special Districts Association, which provides mandatory ethics harassment prevention and Brown Act training to Directors and staff. The District addresses accounting procedures through the staff training process mentioned in response to Recommendation 3 above. The District addresses work place practices and behaviors, including prevention of harassment, through state-mandated training of supervisors and the District's Policy No. 2018-02 prohibiting harassment of any nature.

R7 The District should adopt a policy to ensure that proposed personnel adverse actions are reviewed by someone not in the chain of command to ensure that proper procedures are followed. In the case of proposed adverse actions by executive staff this could be accomplished through the use of an outside expert in personnel matters or legal counsel.

This recommendation has been implemented. District staff undertake significant proposed personnel actions according to District personnel policies and subject to review and guidance by District counsel or special labor counsel.

R8 The District Board should require administration to report quarterly on staff development and staff identified concerns beginning October 1, 2023.

This recommendation will be implemented by October 1, 2023.

R9 The District should reduce its security services funding to a level that is supported by fees paid by residents specific to fund security services.

R10 Effectively immediately, County tax funds currently allocated to security services, should be redirected to the Capital Reserves.

These recommendations require further study. As discussed in the response to Finding 1 above, Respondents are reviewing the continued viability of current security service levels in light of the insufficiency of existing special tax stream, competing priorities for limited property tax revenue, and District voters not approving new special tax revenues to support security. Respondents expect to address these matters, in part, through the FY 2024 budget process that is currently pending.

R11 The District Board should revise its current capitol reserve fund policy to identify specific funding goals for each capitol asset category with supporting fees sufficient to meet the long-term infrastructure needs of the District.

This recommendation will be implemented by March 1, 2024.

R12 The District Board should revise its agreement with the RMCC and begin charging for the use of reclaimed water on the RMCC golf courses at rates typical in the Sacramento area by January 1, 2024.

This recommendation will not be implemented because it is not warranted and is not reasonable. Respondents incorporate the response to Finding 11 above. Respondents cannot unilaterally revise the current agreement to impose charges for treated effluent.

R13 The District Board and staff should avoid perceptions of conflicts of interest in their fiduciary responsibilities to protect the interests of the District and its rate payers.

This recommendation has already been implemented. Respondents incorporate the response to Finding 12 above.

Sincerely,



Timothy Maybee
President, Board of Directors
Rancho Murieta Community Services District