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August 26, 2003

The Honorable Michael T. Garcia
Presiding Judge
Sacramento County Superior Court
720 Ninth Street
Sacramento, CA 95814

RE: Sacramento County Grand Jury Report

Dear Judge Garcia:

In compliance with Penal Code section 993(a) and 933.05, Carmichael Water District submits the following responses to the Grand Jury Report.

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.

Response: Carmichael Water District's Board of Directors have a varying degree of financial or accounting backgrounds. Carmichael Water District concurs that the directors rely on their audit reports along with the monthly, quarterly and annual review of the financials and budget process that takes place over a six month process.

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.

Response: Carmichael Water District concurs. It has been the practice of the District to provide the auditor with polices and procedures and any changes that may have occurred during the audit

cycle. The District audits are conducted by an independent auditor using audit standards. The independent auditor chooses a sampling of all District expenses. Carmichael Water District does not have District credit cards and all travel expenses are included in the agenda in the Director's monthly activity report.

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.

Response: Carmichael Water District concurs. However, who will fund this additional review and at what cost?

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.

Response: Carmichael Water District concurs. Carmichael has always conducted annual audits performed by an independent auditor.

Recommendation #1d:

The California State Legislature should enact a statute requiring the State Controller to independently verify accuracy and completeness of districts audits.

Response: Carmichael Water District concurs. However, who will fund this additional review and at what cost?

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.

Response: Carmichael Water District concurs. It is Carmichael Water District's practice to report all income through payroll, the Board of Directors oversee all District payments and the District's financial records are maintained according to the District's Records Retention policy which is at least five years.

Recommendation #3:

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

Response: Carmichael Water District's present practice is to go out for Request for Proposal (RFP) every 3-5 years for Independent Auditor Services. There has been recently adopted federal legislation (Sarbanes-Oxley Act) the SEC in Section 203(j), Section 10A of Securities Act of 1934, requiring only engagement partner of the Independent Accounting Firm to be changed every five years. Carmichael Water District recommends adoption of a similar standard for California.

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 polices and travel expenses.

Response: Carmichael Water District concurs: within the next six months the District will have this information posted on its Web site. In addition, travel expenses are included in the agenda each month as a part of the District's monthly activity report.

Recommendation #5:

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

Response: Carmichael Water District concurs and has been providing this information for several years.

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 give to public safety personnel to benefit a retiring general manager is not proper.

Response: Carmichael Water District concurs. Carmichael Water District does not have credit cards. The District has a strict policy regarding reimbursement of expenses and for travel arrangements. The current reimbursement for meals is actual cost to a maximum of the following: Breakfast \$10.00, lunch \$16.00 and dinner \$30.00. Golf at District expense has never been allowed.

Recommendation #2a:

These practices should stop immediately.

Response: Carmichael Water District concurs. The District has had well defined travel, reimbursement and ethics policies for many years.

Recommendation #2b:

Expenses submitted for reimbursement or charge on district credit cards that exceeds California State per diem allowances or that do not fall within permitted district expenses policies should be disallowed, published on the district's Web site and discussed at the next board meeting.

Response: Carmichael Water District concurs. The District does not use credit cards, expense reimbursements are included in the monthly agenda under monthly activity report. Within six months, the District will publish the monthly activity report on its Web site. Reimbursements are audited by accounting staff in accordance with the District reimbursement policy. If reimbursement requests do not meet the standards of the policy the reimbursement is denied.

FINDING #3:

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

Response: Carmichael Water District updates its policies on an as needed basis.

Recommendation #3:

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

Response: Carmichael Water District reviews and updates policies as needed to stay current with existing laws, legislation, and/or board policy.

Carmichael Water District has been run efficiently for many years. The Board of Directors strives for continued improvement in every aspect of the District's operation. The employees of the District are hard working individuals who are dedicated to serve the ratepayers of the Carmichael Water District. If you have any questions regarding the responses to the Grand Jury Report, please contact me at (916) 483-2542.

Sincerely,

A handwritten signature in cursive script that reads "Steve Nugent". The signature is written in dark ink and is positioned above the printed name.

Steve Nugent,
General Manager