

# DEL PASO MANOR *Water District*

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September 2, 2003

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

RE: Sacramento County Grand Jury Report dated June 27, 2003

Dear Judge Garcia:

In compliance with Penal Code Section 933.05, Del Paso Manor Water District (DPMWD) submits the following responses to the applicable portions of the subject report.

Our responses, which are italicized, follow the restatement of each finding and recommendation.

## **FINDING #1.**

District directors on the whole do not have financial or accounting backgrounds. They rely on their audit report to ensure that their district's operation is fiscally sound.

*DPMWD concurs. The DPMWD Board of Directors has varying degrees of financial or accounting backgrounds. They rely on the annual audit report along with the monthly report and periodic reviews during the fiscal year.*

## **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.

*DPMWD concurs. It has been the practice of the District to provide the auditor with policies and procedures and any changes that may have occurred during the audit cycle.*

*An independent auditor in accordance with auditing standards generally accepted in the United States conducts the District audits. The independent auditor selects a sampling of all District expenses to review. DPMWD does not have District credit cards and all travel expenses are reviewed at the following regular Board Meeting along with the Director's event 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.

*DPMWD has no objection to an additional level of review. 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.

*DPMWD concurs. DPMWD, since its inception, has conducted 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.

*DPMWD has no objection to an additional level of review. As with **Recommendation #1b**, we question who will fund this additional review and at what cost?*

**Recommendation #2.**

Auditors should confirm water district's 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.

*DPMWD concurs.*

**Recommendation #3.**

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

*The recently adopted federal legislation (Sarbanes-Oxley Act), Section 203(j), Section 10A of Securities Act of 1934, requires that the engagement partner of the independent*

*accounting firm be changed every five years. DPMWD would consider adopting a similar standard if first adopted by the State of 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 policies and travel expenses.

*DPMWD, with 1775 total service connections and a full-time staff of three, does not have a Web site at this time. We regularly communicate with the Del Paso Manor Homeowner's Association and have been offered space on their Web site. We will consider posting on their site.*

**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.

*DPMWD concurs.*

**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.

*DPMWD concurs. DPMWD has policies and practices in place to prevent the potential for the misuse of funds. For example, the District does not issue credit cards, has a travel policy limiting meal allowances and provides for public review of all expenditures at the regular monthly board meeting. DPMWD retirement benefits are at a level suitable for the area and the industry.*

**Recommendation #2a.**

These practices should stop immediately.

*DPMWD concurs.*

**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 next board meeting.

*DPMWD concurs that excess claims should be disallowed. The District has no credit cards and all reimbursements are reviewed by the board at the regular board meeting as stated in response to Recommendation # 4. DPMWD does not have a Web site at this time.*

**Recommendation #3.**

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

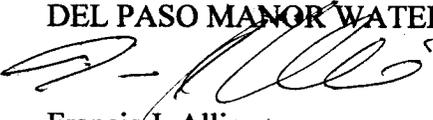
*DPMWD concurs with a bi-annual review of all practices and policies with annual reviews for some practices and policies as appropriate.*

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.

*DPMWD appreciates the Grand Jury's final finding. We plan to continue to serve the public with the same integrity and efficiency as we have in the past.*

Thank you for the opportunity to comment on the Grand Jury report. If you have any questions, please contact our General Manager, Roger Nelson, at (916) 487-0419.

Very truly yours,  
DEL PASO MANOR WATER DISTRICT

  
Francis J. Allio  
President, Board of Directors