



August 10, 2010

The Honorable Steve White
Presiding Judge
Sacramento County Grand Jury
720 9th Street, Department 47
Sacramento, CA 95814

RE: Response to 2009-2010 Sacramento County Grand Jury
Survey of Independent Special Districts in Sacramento County Final Report

Dear Judge White:

Per the Sacramento County Grand Jury's request, on October 23, 2009, Sacramento Suburban Water District (SSWD) mailed to Ms. Becky Castaneda, Grand Jury Coordinator, its responses on the Questionnaire on Management and Governance Practices of Independent Special Districts in Sacramento County.

On June 18, 2010, SSWD received a request to respond to certain of the findings and recommendations of the 2009-2010 Sacramento County Grand Jury final report on the Survey of Independent Special Districts. Enclosed, as requested, are SSWD's responses to Findings 1 through 5.

If you require any further information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert S. Roscoe".

Robert S. Roscoe, P.E.
General Manager

Enclosures

cc: Becky Castaneda, Grand Jury Coordinator at castanb@saccourt.com with responses
SSWD Board of Directors

Sacramento Suburban Water District
Responses to
2009-2010 Sacramento County Grand Jury
Survey of Independent Special Districts in Sacramento County
Final Report

Finding 1.0 ISD directors perform valuable service at minimal cost. However, this survey reveals inconsistent behaviors regarding compliance with sound management practices.

Recommendation 1.1 Directors should review their by-laws every four years to assure compliance with applicable laws, ethical practices, and appropriate behavior.

Response:

The Sacramento Suburban Water District's board adopted rules for proceedings states that these rules will be reviewed biennially or every two years. Staff and legal counsel reviews the proceedings and provides recommendations for Board approval. The Board's last review with adopted changes occurred on September 15, 2008. The next Board review is scheduled for the August 16, 2010 regular Board meeting with changes scheduled to be adopted at the September 20, 2010 regular Board meeting.

Recommendation 1.2 Directors should limit compensation to reasonable meeting stipends and necessary costs of professional activities. All ISD boards should ensure that their compensation practices conform to the principles in Section 5.1 of this report.

Response:

The Sacramento Suburban Water District has a policy in place, which is reviewed biennially, entitled "Director's Compensation and Expense Reimbursement Policy." The policy addresses the items noted in Section 5.1 (lines 299 through 306) of the Grand Jury report.

The District's annually budgets for director's compensation, expenses and reimbursements through a public process. All compensation and expenses paid to a SSWD Director are reported for each director at the monthly regular Board meetings as a separate, stand-alone item in the financial report. These reports are also available on the District's web site.

Recommendation 1.3 Directors should limit the use of consent calendars according to the principles in section 5.1 of this report.

Response:

Below is the section in Sacramento Suburban Water District's rules for proceedings regarding the consent agenda.

Rule 15 – Consent Agenda

The General Manager may list on the agenda a "consent agenda," which will consist of routine matters on which there is generally no opposition or need for discussion. Examples of consent agenda items might include approval of minutes, financial reports and routine resolutions. Any matter may be removed from the consent agenda and placed on the regular agenda at the request of any member of the Board. The entire consent agenda may be approved by a single motion made, seconded and approved by the Board.

Consent items, other than draft Board meeting minutes, have staff reports and all supporting documents in the agenda packet. The entire board packet, including consent items, is available on the District's web site.

Limiting consent items by dollar value will be reviewed for future consideration.

Executive or director compensation decisions are typically discussed at one meeting and approved at a subsequent meeting.

Finding 2.0: Some ISDs grant monetary awards for education and training; many have inadequate evaluation of employees' degrees and certificates.

Recommendation 2.1 All ISDs should encourage education and training, but should not make direct monetary (cash) awards for educational achievement.

Response:

The Sacramento Suburban Water District (the "District") encourages all staff to participate in educational and training programs. One of the values stated in the District's Strategic Plan is to "Achieve high levels of staff professionalism through career development, including training opportunities, and retention of skilled staff with competitive compensation" and a specific goal is to "Attract and retain a well-qualified staff with competitive compensation, effective training, and professional development to ensure safe, efficient and effective job performance." The Strategic Plan is available at the District's website at http://sswd.org/reports/sswd_strategic_plan.html.

The District does not provide "cash" awards for completing educational programs. To incent staff to obtain certification levels above the minimum required for a position, a nominal monetary amount is paid since this directly benefits the District and its customers by improving and enhancing District operations and efficiency. The District's training and career development program is governed by the following policies and procedures:

1) The District's Training and Career Development Policy (PL – HR 004) has been in effect since November 17, 2003. The policy, which is available at

[http://sswd.org/about_us/policies/PL%20-%20HR%20004%20Training%20and%20Career%20Development%20Policy%20-%203%20\(10-15-07\).pdf](http://sswd.org/about_us/policies/PL%20-%20HR%20004%20Training%20and%20Career%20Development%20Policy%20-%203%20(10-15-07).pdf) encourages employees to participate in educational activities to increase job proficiency and improve work force stability. The policy also authorizes the General Manager to establish a training program for required licenses/certificates and career development with reimbursement of fees, tuition and related expenses as determined and approved by the General Manager.

2) The Employee Certification and License Incentive Program Procedure (PR – HR 006) authorizes and establishes a method of providing incentive to employees to acquire additional certifications and licenses necessary to the operation of the water utility but not otherwise required for their positions.

3) In the District’s Employee Policy & Procedures Manual (the “Manual”), Chapter 6 (Other Benefits and Services) details the requirements for on-duty and off-duty education and reimbursements. Participation in any off-duty education program requires the General Manager’s prior approval.

Recommendation 2.2 All ISDs should recognize educational degrees and certificates only if they meet the criteria listed in Section 5.3.1.

Response:

The District evaluates all required educational degrees by conducting a background check for all prospective staff that includes education verifications. The class specifications/job descriptions for all positions that require an educational degree specify the degree must be “from an accredited college or university.” Prior to promotion or advancement, the same verification process is used if the employee’s current position does not require the same level of educational degree.

As stated in the Response to Recommendation 2.1, the District encourages all staff to participate in educational programs and provides reimbursements for off-duty programs subject to the General Manager’s prior approval as authorized in Chapter 6 of the Manual. The General Manager has not, and does not, approve financial assistance for any degree program that is not taken at an accredited college or university. The District is in the process of reviewing and updating the Manual and will specify that any degree program must be taken at an accredited college or university or a professional/trade institution that is regulated or recognized by state law and also approved by the General Manager.

Finding 3.0 ISD pension awards and Other Post Employment Benefits (OPEB) have increased markedly in the last decade. Some of these awards are unfair and unsustainable.

Recommendation 3.1 All ISDs should adopt pension and OPEB plans that are fair, affordable and sustainable.

Response:

SSWD has adopted two pension plans with CalPERS and an Other Post Employment Benefit (OPEB) with the California Employers' Retiree Benefit Trust (CERBT). The first pension plan was adopted September 30, 2002 (3% @ 60) while a new Tier 2 plan was established on September 25, 2006 (2% @ 55). The 3% @ 60 plan was determined to not be sustainable and the 2% @ 55 plan was adopted.

In 2008 the District contracted with CERBT to prefund its OPEB obligations. Since 2008 the District has funded its actuarial required contribution each year.

Recommendation 3.2 To minimize unfair pension boosting, all ISDs should ensure that calculations of employees' base pension awards are on actual base salary earnings over their highest 36 months of earning and urge CalPERS to promote this standard.

Response:

The District has always and does ensure that all pension awards are based on actual base salaries. For the 3% @ 60 plan the earnings are based on the final year's salary. The Tier 2 plan (2% @ 55) applies to all employees hired after September 2006 and uses the highest 36 months of earnings.

Recommendation 3.3 All ISD pension/OPEB changes should be made only after analysis and full disclosure to all parties of the fiscal ramifications.

Response:

All pension plan and OPEB changes were made after full-disclosure to the Board of Directors and the public in multiple meetings of the Board of Directors.

Recommendation 3.4 All ISD pension/OPEB benefits should have an employee contribution component.

Response:

All District pension plans have an employee contribution requirement. For the 3% @ 60 plan the employee contribution rate is 8%. For the 2% @ 55 plan the employee contribution rate is 7%. Per Board resolutions the District presently pays the entire employee contribution amount. The employer pick-up of the employee contribution is fully factored into the total compensations surveys performed by the District when benchmarking competitive compensation.

OPEB employee benefits are not subject to employee contributions. The District believes this is true for all institutions. Instead OPEB benefits are subject to certain limits on amounts contributed by the District for the OPEB benefits it offers. Further, employees hired after January 1, 2003 vest in OPEB benefits over a 20 year period. Employees

become 50% vested after 10 years of service incrementally increasing to 100% after 20 years of service.

Finding 4.0 The majority of the ISDs surveyed in this study are neglecting their fiduciary responsibility to taxpayers and ratepayers by excessive use of no-bid purchasing.

Recommendation 4.1 Every ISD in Sacramento County should establish and adhere to a goal of minimizing no-bid purchasing. Essentially all purchases except utilities and emergency construction should be by contracts awarded to the lowest responsive responsible bidders.

Response:

In December of 2004, the District's Board of Directors adopted the policy entitled "Public Works Contracting Policy" (PL – Eng 002) that minimizes no-bid purchasing of all services necessary for the operation and maintenance of the District. The primary purpose of this policy is to provide the District's ratepayers the best value for contracts let by the District. The policy directs staff to utilize generally accepted methods to acquire competitive pricing to achieve this objective. In support of this policy, the General Manager has implemented the procedure entitled "Public Works Contracting Procedures" (PR – Eng 001) which provides the guidelines for implementing the policy of the Board. This procedure provides staff the definitions, guidelines, and criteria for using the District's various public works contracting methods which include Design/Build, Emergency, Force Account, Open Bid, Prequalification Bid, Request for Qualifications and Expression of Interest and/or Request for Proposal, Sole Source, and Solicitation of Price Quotes Contracting. The Public Works Contracting Policy can be viewed on the District's web site.

In addition to the "Public Works Contracting Policy", in September of 2004, the Board of Directors approved the "Procurement Policy" (PL – Fin 005). The purpose of this Policy is to provide for the purchase of materials and trade services with the objective that they will be available at the proper time, in the proper place, in the proper quantity, in the proper quality, and at the best available price, consistent with the needs of the District. To support this policy, the General Manager has directed the implementation of several procedures which include but are not limited to "Delegation of General Manager Procurement and Public Works Contracting Authority Procedure" (PR – Fin 001), "Petty Cash Procedure" (PR – Fin 005), "Purchasing Card Procedure" (PR – Fin 003), and "Purchase Order Procedure" (PR – Fin 008). The "Procurement Policy" can be viewed on the District's web site.

Finding 5.0 ISDs have not consistently conducted and reported required Independent Financial Audit Reports and management audits.

Recommendation 5.1 All ISDs must complete and file the required annual Independent Financial Audit.

Response:

An annual report has been filed every year with all regulatory, oversight, indenture, credit rating agencies, etc. District annual reports are also posted on the District's web site.

District annual reports are also filed each year with the State Controller's Office and the County of Sacramento.

Recommendation 5.2 All ISDs should commission a thorough periodic management audit. These audits should be completed by a multi-disciplinary team qualified to examine a district's management practices. This audit should be done in fiscal year 2011, and every four years thereafter.

Response:

In addition to the audit as described in the District's response to Recommendation 5.1, Sacramento Suburban Water District is permitted by the State of California, Department of Public Health (DPH), Office of Drinking Water. DPH inspects and audits the District typically on a two year basis. This inspection covers numerous administrative functions of the District that pertain to the proper care and safe operation of the utility including the technical, managerial and financial capabilities of the public water system (known as the TMF review). To staff's knowledge, there is no regulation that requires the District to conduct and report a management audit. However, the General Manager of the District agrees with this recommendation by the Grand Jury and believes it to be a good practice of a well run district. As of the date of this report, the District has registered with the American Public Works Association to do an "Assessment of Management Practices" of the District. In addition, the General Manager, upon completion of this audit, may consider other assessments provided by organizations such as the American Water Works Association.