

WEST VALLEY WATER DISTRICT

Review Report

INTERNAL CONTROL SYSTEM

July 1, 2016, through June 30, 2018



BETTY T. YEE
California State Controller

June 2020



BETTY T. YEE
California State Controller

June 11, 2020

Clarence C. Mansell Jr., General Manager
West Valley Water District
855 West Base Line Road
Rialto, CA 92376

Dear Mr. Mansell:

The State Controller's Office reviewed the West Valley Water District's internal control system to determine the adequacy of the district's controls for conducting its operations, preparing financial reports, safeguarding of assets, and ensuring proper use of public funds.

Our review found deficiencies in the district's internal control system. Our evaluation of the internal control system was based on conditions that existed during the review period of July 1, 2016, through June 30, 2018.

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the U.S. Government Accountability Office, to assess various aspects of the district's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. Of the 48 control attributes evaluated, we found 19, or 40%, were present but not functioning; two, or 4%, were not present and not functioning; and 27, or 56%, were present and functioning.

The district should develop a comprehensive plan to address these deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The Board of Directors should require periodic updates at public meetings of the progress in implementing this plan. Furthermore, we request that the district provide the State Controller's Office with a progress update of its plan six months from the issuance date of this report.

If you have any questions, please contact Efren Loste, Chief of our Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/lis

cc: Shamindra “Rickey” Manbahal, Chief Financial Officer
West Valley Water District
Channing Hawkins, President
West Valley Water District
Kyle Crowther, Vice President
West Valley Water District
Dr. Michael Taylor, Director
West Valley Water District
Dr. Clifford O. Young Sr., Director
West Valley Water District
Greg Young, Director
West Valley Water District

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Review Report

Introduction

The State Controller's Office (SCO) reviewed the West Valley Water District's internal control system for the period of July 1, 2016, through June 30, 2018 (fiscal year [FY] 2016-17 and FY 2017-18). When information obtained from city officials, independent auditors, and other audit reports merited further review, we expanded our testing to include prior-year and current-year transactions.

Our review found deficiencies in the district's internal control system as described in the Findings and Recommendations section of this review report.

Background

The West Valley Water District provides water to approximately 21,676 connections within its 31 square-mile service area, located in southwestern San Bernardino County and a small portion of northwestern Riverside County. The service area encompasses half of the city of Rialto; portions of the cities of Colton, Fontana, and Jurupa Valley; and some of the unincorporated areas of San Bernardino and Riverside Counties.

The district is an independent special district, operating under the authority of Division 12 of the California Water Code. The district is governed by a five-member Board of Directors (Board) elected from within the district's service area; Board members serve overlapping four-year terms.

The district's elected officials are as follows:

- Channing Hawkins, President
- Kyle Crowther, Vice President
- Dr. Michael Taylor, Director
- Dr. Clifford O. Young Sr., Director
- Greg Young, Director

The district's General Manager, Clarence C. Mansell Jr., administers the day-to-day operations of the district in accordance with policies and procedures established by the Board.

We conducted this review pursuant to Government Code (GC) section 12422.5, which authorizes the State Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

We used *Standards for Internal Control in the Federal Government* (Green Book), established by the Government Accountability Office, to assess various aspects of the district's internal control system. The Green Book outlines the fundamental components, principles, and attributes of effective internal control systems. This assessment is intended to help district management and the oversight body evaluate how well the district's internal control system is designed and implemented, and determine where improvements can be made.

Objective, Scope, and Methodology

The objective of our review was to evaluate the district's internal control system for FY 2016-17 and FY 2017-18 to determine the:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequacy of public-resource safeguards.

To achieve our objective, we:

- Evaluated the district's formal internal policies and procedures;
- Conducted interviews with district employees and observed the district's business operations to evaluate the district's internal control system;
- Reviewed the district's supporting documentation, including financial records;
- Performed tests of transactions on a non-statistical sample basis to ensure adherence with prescribed policies and procedures, and to test and validate effectiveness of controls; and
- Evaluated various aspects of the district's internal control system in accordance with the Green Book.

Conclusion

Our review found deficiencies in the district's internal control system, as described in the Findings and Recommendations section of this review report. These deficiencies include the following:

- District officials overrode established processes for hiring and promoting employees (Finding 1);
- A costly Board meeting was held outside of district boundaries (Finding 2);
- The district paid directors' questionable compensation for meetings (Finding 3);
- The district incurred expenditures that are excessive and questionable, and lacked proper approval (Finding 4);
- The district's credit card practices are highly susceptible to fraud, waste, and abuse (Finding 5);
- District officials failed to comply with contracting requirements and purchasing procedures (Finding 6);
- Employees might not have been paid correctly because of inaccurate timesheets and excessive paid holidays (Finding 7);
- High turnover and lack of consistent leadership have hindered operational stability (Finding 8); and
- District's directors did not complete required ethics training (Finding 9).

Of the 48 control attributes evaluated, we found 19, or 40%, were present but not functioning; two, or 4%, were not present and not functioning; and 27, or 56%, were present and functioning. The results of our review and evaluation of the district's internal control system are included in this report as an appendix.

**Views of
Responsible
Officials**

We issued a draft review report on April 15, 2020. Shamindra "Rickey" Manbahal responded by letter dated April 29, 2020 (Attachment), agreeing with the audit results with the exception of Findings 2, 5, and 9. The district provided additional supporting documentation with its response; as these documents were not relevant to the finding, we did not reproduce them.

Restricted Use

This report is solely for the information and use of West Valley Water District and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and available online at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

June 11, 2020

Findings and Recommendations

**FINDING 1—
District officials
overrode
established
processes for hiring
and promoting
employees**

The district overrode its established processes in hiring and promoting several employees. Additionally, the district did not retain sufficient documentation to support its hiring selections or to justify promotions and salary increases that did not adhere to district policy.

Lack of sufficient documentation to support its hiring selections

We selected 18 of 87 district employees and reviewed documentation such as job descriptions, résumés, and job applications. We also interviewed district management to determine whether the district maintains sufficient documentation to support its hiring selections.

The district requires all applicants to complete a standardized district application in accordance with Article 3, Section 302 of the *West Valley Water District Human Resources Policies & Practices Manual*. The application requests “information pertinent to the individual’s background necessary to determine the eligibility of the applicant.”

Based on our review of the job applications, we found four of the 18 employees tested may not have met the minimum work experience or special requirements for their position as established by their job descriptions. We found no other documentation to support the district’s selection of these employees.

Additionally, the district did not consistently follow a uniform recruitment process. The district has an established recruitment process that includes announcing a job opening, gathering applications, reviewing candidates’ qualifications, and conducting examinations or interviews to evaluate the candidates. Although the *West Valley Water District Human Resources Policies & Practices Manual* provides the district’s General Manager discretion over the recruitment and hiring process, including whether to post a job announcement publicly, and the manner and method by which the selection process is administered, documentation is lacking for the process that the district followed in completing much of its hiring.

We selected 22 of 87 employees to determine how the district completed its recruitments. Based on our review of documents and discussions with district management, we found the district did not retain supporting documentation for 10 of the 22 employees selected for testing. According to district management, most of the 10 employees did not undergo the established recruitment process.

The district hired a contractor to help with the recruitment process for some of these 10 employees. However, the district did not obtain supporting documentation from the contractor. The contractor declined to provide an explanation or documentation for the employee selections, citing confidentiality of the recruitment process. One of the contracts we reviewed for recruitment services defined the scope of services as preparing a brochure for the position, formalizing announcements and coordinating with the district’s HR department, reviewing and grading applicants, recommending final candidates to the district’s General

Manager and Executive Committee for their final selection, and negotiating the final recruitment package for the district's Board review. Without available documentation for our review, we could not verify how the candidates were selected and whether the recruitment tasks described in the contract were performed.

Lack of written justification for promotions, salary increases, and hiring above the lowest step in a pay range

We reviewed the starting salaries of 18 employees and found that two employees received higher starting salaries than employees with a similar background. The following employees were awarded salaries above the minimum starting salaries for the pay range:

- One employee was hired at a salary of \$189,592 per year, \$54,142 over the minimum; and
- Another employee was hired at a salary of \$60,237 per year, the highest step in the pay range.

Article 3, Section 309 of the *West Valley Water District Human Resources Policies & Practices Manual* states:

CLASSIFICATIONS:

All vacancies shall ordinarily be filled at Step 1 of the salary range for each classification. The General Manager is authorized to employ qualified persons at higher step positions.

Although the General Manager has the authority to grant salaries that are higher than the minimum, the district should have required written justifications to explain why the General Manager did not adhere to the policy, and retained such documentation in the HR files.

In addition, we tested six of 25 internal employee promotions and found the following:

- One employee was promoted and received a salary increase of 68.62%, from \$88,962 to \$150,010, although the minimum starting salary for the position was \$101,067; and
- Another employee was promoted and received a salary increase of 41.48%, from \$66,394 to \$93,933, although the minimum starting salary for the position was \$79,165.

Article 3, Section 305 of the *West Valley Water District Human Resources Policies & Practices Manual* states, in part:

An employee promoted to a higher position will receive the minimum salary for the higher position or at least a 5% increase above the employee's former position, whichever is higher, provided the increase is within the range of the higher position.

Although the new pay rate for the internally promoted employees falls within the range prescribed by the district policy, the district should document its justifications for promotions and salary increases that do not adhere to the policy.

It is important for the district to retain supporting documentation for transparency and accountability, especially when it uses public resources and deviates from established policies and procedures.

Recommendation

We recommend the district:

- Retain all supporting documentation relating to the recruitment process; and
- Document and retain its justification for hiring above the minimum salary for candidates that are well-qualified and have relevant experience.

District's Response

The board implemented a hiring freeze, hired a new interim HR manager, and directed the HR department to manage recruitments, transfers, promotions, and salary changes, and to retain documentation related to recruitment.

**FINDING 2—
A costly board
meeting was held
outside of district
boundaries**

Special meeting held outside of district boundaries

The district held two special meetings outside of district boundaries, at Temecula Creek Inn, a golf resort located in Temecula Valley wine country, 60 miles from the district office. The meetings were held on November 3–4, 2018, and August 2–4, 2019.

These meetings appear to be in violation of GC section 54954(b), which states, “Regular and special meetings of the legislative body shall be held within the boundaries of the territory over which the local agency exercises jurisdiction.”

The district publicly posted the notice and the agenda for both special meetings, conducted the meetings, and paid the directors for their attendance at the meetings. However, due to the lack of meeting minutes, we were not able to verify what transpired and who was in attendance at these meetings.

As of March 5, 2020, the district informed us that it has yet to prepare the minutes for these meetings.

Costly meeting

The district incurred over \$70,000 in expenses related to the special meetings, which included \$37,657 in expenses for food and lodging, and \$35,945 in consultant fees. Receipts reviewed showed charges for 13 to 14 rooms for the November 2018 retreat, and 19 rooms for the August 2019 retreat. Our review of the receipts revealed that the rooms were for guests including Board Directors, members of the district management, district employees, and consultants. The receipts show expenses that included the following:

Date	Item	Price	Quantity	Subtotal	Taxes/Fees	Total
November 2, 2018	Room charge	\$ 239	\$ 13	\$ 3,107	\$ 387	\$ 3,494
	No-show charge	239	2	478	-	478
	BBQ dinner buffet ¹	49	26	1,264 ¹	413	1,676
	Dining room	150	1	150	13	163
November 3, 2018	Room charge	239	14	3,346	417	3,763
	Breakfast ¹	25	26	655 ¹	214	869
	Lunch buffet ¹	27	26	702 ¹	229	931
	Dinner ¹	59	26	1,521 ¹	497	2,018
	Projector package	295	1	295	96	391
November 4, 2018	Function room	200	1	200	18	218
	Breakfast ¹	25	26	655 ¹	214	869
					Subtotal	\$ 14,871
August 2, 2019	Room charge	309	19	5,871	731	6,602
	BBQ dinner buffet	54	28	1,512	494	2,006
	Dining room	150	1	150	13	163
August 3, 2019	Room charge	309	19	5,871	731	6,602
	Breakfast	28	30	840	274	1,114
	Lunch buffet	32	30	960	314	1,274
	Coffee	55	1	55	18	73
	Dinner	73	29	2,117	692	2,809
	Projector package	295	1	295	96	391
	Function room	200	1	200	18	218
	Room service	26	1	26	3	29
August 4, 2019	Breakfast	28	30	840	274	1,114
	Projector package	295	1	295	96	391
					Subtotal	\$ 22,786
					Food and Lodging Total	\$ 37,657

¹ Calculation variance due to rounding.

According to the district, the consultant fees—\$8,500 for the November 2018 meeting, and \$27,445 for the August 2019 meeting—were for facilitating a district retreat and team-building activities, conducted at the special meeting.

It is unclear why the district held these meetings outside of the district, and used public funds for what appears to be a lavish retreat of elected officials, district management, and consultants.

Recommendation

We recommend the district:

- Adhere to legal requirements for conducting open board meetings and documenting meeting minutes; and
- Ensure district expenses are reasonable, necessary, and district-related.

District's Response

From August 2 to August 4, 2019, WVWD held a retreat at Temecula Creek Inn for team building, planning, and other topics. There were no adequate facilities within the West Valley to hold this retreat. It was noticed and recorded as a special meeting for transparency purposes. However, this meeting was not a board meeting. It was an off-site retreat for the board and executive staff, which is a customary practice. From November 2 to November 4, 2018 WVWD held a retreat for team building [and] planning at Temecula Creek Inn and in 2016, WVWD also held another retreat at Lake Arrowhead. This practice is in accordance with the State of California Government Code section 54954 (b)(4), which requires that all *meetings* be held within the district boundaries unless facilities are not available in the district for the purpose intended. In this case, adequate facilities for the retreat were not located within the district boundaries.

SCO Comment

Our finding and recommendations remain unchanged.

If a meeting is attended by at least three Board members (a quorum), then it should be held in accordance with GC section 54954(b), which requires that meetings be held within the district's boundaries.

Furthermore, the district did not provide any documentation to show how facilities within the district boundaries were inadequate. Given that the district held hundreds of other board meetings at the district office, it is unclear why the district needed a golf retreat's facilities to conduct district business.

**FINDING 3—
The district paid
directors'
questionable
compensation for
meetings**

The district compensated its directors for meetings without prior Board approval, without documenting the business purpose of the meeting, and for more than one meeting per day.

GC section 53232.1 states, in part:

(a) When compensation is otherwise authorized by statute, a local agency may pay compensation to members of a legislative body for attendance at the following occurrences:

(1) A meeting of the legislative body.

(2) A meeting of an advisory body.

(3) A conference or organized educational activity conducted in compliance with subdivision (c) of Section 54952.2, including, but not limited to, ethics training required by Article 2.4 (commencing with Section 53234).

(b) A local agency may pay compensation for attendance at occurrences not specified in subdivision (a) only if the governing body has adopted, in a public meeting, a written policy specifying other types of occasions that constitute the performance of official duties for which a member of the legislative body may receive payment.

During FY 2017-18, the district's board compensation amount was \$147 per meeting, set by District Ordinance No. 84. In October 2018, the board compensation rate increased to \$161.70, set by District Ordinance No. 85.

The following is the compensation payments to the Board for FY 2017-18 and FY 2018-19:

Director	Board and Committee Meetings				Total Meetings (Compensated)	
	Meetings		Outside Meetings		Occurrences	Amount
	Occurrences	Amount	Occurrences	Amount	Occurrences	Amount
Director A	63	\$ 9,908	49	\$ 7,732	112	\$ 17,640
Director B	38	6,027	75	11,804	113	17,831
Director C	54	8,526	66	10,378	120	18,904
Director D	38	5,807	75	11,951	113	17,758
Director E	47	7,174	28	4,410	75	11,584
FY 2018-19 Totals	240	\$ 37,442	293	\$ 46,275	533	\$ 83,717
Director A ¹	33	\$ 4,851	22	\$ 3,234	55	\$ 8,085
Director B	39	5,733	33	4,851	72	10,584
Director C ¹	36	5,292	26	3,822	62	9,114
Director D	50	7,350	55	8,085	105	15,435
Director E	65	9,555	21	3,087	86	12,642
FY 2017-18 Totals	223	\$ 32,781	157	\$ 23,079	380	\$ 55,860

¹New Director effective December 2017.

Article 200 of District Ordinance No. 85 specifies the types of meetings or occurrences that are compensable. These include board meetings, committee meetings, and outside meetings. Furthermore, pursuant to GC section 53232.1, District Ordinance No. 85 Schedules A, B, and C specify which types of outside meetings are compensable.

We noted the following from our review of board compensation:

- For the outside meetings, 232 of 293 (or 79%) in FY 2018-19 and 112 of 150 (or 75%) in FY 2017-18 were for occurrences that were not listed in District Ordinance No. 85 Schedules A, B, or C.

District Ordinance No. 85 Article 203. Outside Meetings, subparagraph (c), states, in part, "Directors shall not represent the Board of Directors at any functions of organizations not listed on Schedule "A" or "B" without the prior approval of the Board President." We were not able to determine how many of the occurrences not listed on Schedules A or B, for which the Board were compensated, had prior approvals from the Board President. We did not find evidence of prior Board approval in the documents available for our review.

- Directors were compensated for the following types of outside meetings:
 - "Public meetings" at farmers markets in the city of Rialto (15 occurrences);
 - Lunch meetings with the district's General Manager, other district employees, and/or consultants (15 occurrences);
 - Miscellaneous meetings with district staff (73 occurrences);

- Teleconferences of unknown duration with other directors, general counsel, other employees, and/or consultants (47 occurrences); and
- Meetings in Temecula (Finding 2).

In addition to the question of whether these outside meetings received prior Board approval, it is also questionable how much business was conducted at these events and whether they were necessary.

- In 19 instances during FY 2018-19, three of the five directors received compensation for more than one meeting in one day. For example, a director was compensated twice on January 9, 2019, for conducting two separate conference calls with the district's general counsel. Although these instances of payments for multiple meetings in one day did not result in payments for more than 10 days in any month, Water Code section 20201 prevents directors from receiving compensation for more than one meeting in one day.

Recommendation

We recommend the district:

- Revisit its written policy regarding Board compensation and revise the policy as necessary to ensure compliance with applicable laws;
- Clarify in its policy what meetings are compensable; and
- Adhere to its policies.

District's Response

The district directed its officials to submit completed reimbursement forms, receipts, and meeting agendas for the reimbursement of travel and meeting expenses.

**FINDING 4—
The district
incurred
expenditures that
are excessive and
questionable, and
lacked proper
approval**

We tested the district's expenses from FY 2014-15 to FY 2018-19 and found excessive operating expenses for the Board, expenses that lack proper approval, and questionable expenses.

Excessive Operating Expenses

The district authorizes the directors to incur expenses in connection with the meetings or occurrences set forth in Article 200 of District Ordinance No. 85. These expenses include meals, lodging, transportation, and other fees related to an approved event. These expenses may be paid directly by the district, through the district's credit card; or by the director, and subsequently reimbursed by the district.

During FY 2017-18 and FY 2018-19 the district budgeted \$25,000 for director operating expenses, or \$5,000 per director per fiscal year. Director operating expenses include meals, lodging, and various other expenses. Following are the director operating expenses for FY 2017-18 and FY 2018-19:

Director	Expenses Incurred				Budget	Percent Over / Under Budget
	Meals	Lodging	Other ¹	Total		
Director A	\$ 601	\$ 5,515	\$ 6,001	\$ 12,117	\$ 5,000	142.3%
Director B	330	1,715	1,315	3,360	5,000	-32.8%
Director C	182	5,167	6,403	11,752	5,000	135.0%
Director D	286	241	6,630	7,157	5,000	43.1%
Director E	295	339	594	1,228	5,000	-75.4%
FY 2018-19 Totals	\$ 1,694	\$ 12,977	\$ 20,943	\$ 35,614	\$ 25,000	42.5%
Director A ²	\$ 242	\$ 2,070	\$ 2,230	\$ 4,542	\$ 5,000	-9.2%
Director B	527	2,119	1,151	3,797	5,000	-24.1%
Director C ²	594	1,876	2,423	4,893	5,000	-2.1%
Director D	960	846	9,041	10,847	5,000	116.9%
Director E	454	2,011	1,888	4,353	5,000	-12.9%
FY 2017-18 Totals	\$ 2,777	\$ 8,922	\$ 16,733	\$ 28,432	\$ 25,000	13.7%

¹Includes car rental, shuttle, parking, airfare, mileage, registration, and miscellaneous expenses.

²New Director effective December 2017.

During our review, we found that for both fiscal years, the directors' operating expenses were allocated to the operating expenses of two departments, Board of Directors and Administration. The table above includes the total amount of director operating expenses, regardless of where they were allocated for each fiscal year, and reflects actuals in excess of budgeted amounts. The most excessive spending was related to meal and travel expenses. Although district policies allow for directors to incur expenses and to receive reimbursements for district-related expenses that the directors paid for directly, district policies do not specify reimbursement rates for travel, meals, and lodging.

GC section 53232.2 states, in part:

- (b) If a local agency reimburses members of a legislative body for actual and necessary expenses incurred in the performance of official duties, then the governing body shall adopt a written policy, in a public meeting, specifying the types of occurrences that qualify a member of the legislative body to receive reimbursement of expenses relating to travel, meals, lodging, and other actual and necessary expenses.
- (c) The policy described in subdivision (b) may also specify the reasonable reimbursement rates for travel, meals, and lodging, and other actual and necessary expenses. If it does not, the local agency shall use the Internal Revenue Service rates for reimbursement of travel, meals, lodging, and other actual and necessary expenses as established in Publication 463, or any successor publication.

As the district does not have a policy specifying the reasonable reimbursement rates for travel, meals, lodging, and other actual and necessary expenses, the district is subject to Internal Revenue Service rates for reimbursement of travel, meals, lodging, and other actual and necessary expenses as established in Publication 463, or any successor publication. Furthermore, although GC section 53232.2 specifically addresses reimbursements for a legislative body, the district should have taken a conservative approach by adopting a similar policy for directors' meal and travel expenses directly paid for by the district, and meals and travel expenses incurred by its employees.

A few examples of directors' excessive travel and meals that did not fall within the Internal Revenue Service reimbursable rates include:

- \$5,846 in lodging costs for two Board Directors and an Assistant General Manager at The Clement Monterey Intercontinental Hotel in Monterey, California during May 2019. The lodging rates of \$381 per night were significantly higher than the Monterey County May 2019 per diem lodging rate of \$154 per night, as prescribed by the federal government.
- \$3,925 in lodging costs for two Board Directors and a Consultant at the Renaissance Hotel in Washington, DC during May 2016. The lodging rates of \$440 per night were significantly higher than the District of Columbia May 2016 per diem lodging rate of \$226 per night, as prescribed by the federal government.
- \$146 or \$73 per person for a dinner in Sacramento, California for a Board Director and an Assistant General Manager in May 2018. Per diem meal rates prescribed by the federal government for dinner in Sacramento County during May 2018 were \$28.
- \$107 or \$53 per person for a lunch in Rancho Cucamonga, California for a Board Director and a district employee in October 2016. Per diem meal rates prescribed by the federal government for lunch in San Bernardino County during October 2016 were \$13.

Additionally, the district did not provide documentation to support that these expenses were approved by the governing body in a public meeting before the expenses were incurred as required by GC section 53232.2(f). In accordance with GC section 53232.2(g), expenses incurred above the established rates that are not approved before they are incurred should be at the expense of the director, not at the public's expense. Furthermore, it is unclear whether the travel and meal expenses were necessary.

Lack of proper approval

We also noted reimbursements that were not properly approved as follows:

- \$3,529 to a Board Director with no documented management approval; and
- \$1,034 reimbursement claim that the claimant self-approved.

The district's current reimbursement process appears to be weak, and may be vulnerable to fraud, waste, and abuse. To prevent waste and abuse of public funds, the district should ensure expenses and reimbursements are reasonable and for district-related purposes.

Questionable expenses

We noted the following questionable Board expenses:

- \$1,897 for an election victory party. Three Board Directors were elected on December 7, 2017, and subsequently held an installation ceremony attended by 40 people at the Sierra Lakes Golf Club; the event cost \$1,897.
- Various dining reimbursements that included purchases of alcoholic beverages, such as a bottle of wine for \$48.40, a beer for \$6.00; and a glass of wine for \$11.25.

Per District Ordinance No. 85, Article 301. Lodging, Meals, and Other Expenses, subparagraph (c), alcoholic beverages “are not reimbursable expenses.”

- Meal expenses for non-travel meetings and events including 39 instances for a total of \$1,231, or an average of \$32 per meal, during FY 2017-18; and 38 instances for a total of \$908, or an average of \$24 per meal, during FY 2018-19. Meal costs are usually reimbursable if incurred while attending an approved business-related event away from the base of business.
- \$10,486 in travel expenses to attend the 87th Annual Meeting of The United States Conference of Mayors, held in Honolulu, Hawaii, from June 28 to July 1, 2019. The conference was attended by two directors and the General Manager. From our review of the conference agenda, it appears that there were two water-related events that might have been of interest to the district—a 1.5-hour Mayors’ Water Council roundtable discussion and a 1.25-hour Membership Standing Committee roundtable discussion, both held on the first day of the conference. We did not find additional documentation to support the necessity of the expenses incurred for this conference, which averaged \$3,500 per person.
- Reimbursements for director-paid Long-Term Care (LTC) insurance premiums were made from the Board of Director department’s operating accounts. These reimbursements totaled \$12,670 for FY 2017-18 and FY 2018-19.

District Ordinance No. 85, Article 400. Benefits, states, in part:

407. Long Term Care. Coverage is mandatory for all Directors, their spouse and Dependent Children.

- a) The Long Term Care Plan, administered by the CalPERS Long Term Care (LTC) program, is recommended.
- b) The District shall pay one hundred percent (100%) of the premium for the Director, spouse, and Dependent Children.

It is unusual for LTC coverage to be paid for by the employer. Furthermore, if the LTC expense is considered a benefit as outlined in the district ordinance, then the district should account for it as a benefits cost within personnel expenses.

We also noted that the district paid Fontana Chamber of Commerce for sponsorship in two events—\$10,000 for Fontana Chamber of Commerce’s 78th Annual Board of Directors Installation Gala in June 2019, and \$5,000 for a Police and Fire Awards Dinner in April 2019. The district General Manager approved the invoices for payment; however, he was unable to explain the purpose of the sponsorship or to identify who attended these events. Without sufficient supporting documentation, we were unable to verify that these expenses were district-related.

Recommendation

We recommend the district:

- Develop, adopt and adhere to a written policy that specifies reasonable reimbursement rates for travel, meals, and lodging for Board Directors and employees, or adhere to the Internal Revenue Service reimbursement rates;
- Ensure all expenses incurred are necessary;
- Seek reimbursement for previous expenses above the Internal Revenue Service reimbursement rates;
- Recover funds for erroneous reimbursement of non-district-related expenses; and
- Properly record Board Director expenses to maintain accurate accounting records and transparency to the public.
- Comply with all applicable laws regarding the use of public resources and ensure that all expenses are district-related.

District’s Response

The district directed its officials to submit completed reimbursement forms, receipts, and meeting agendas for the reimbursement of travel and meeting expenses.

The district plans to develop new travel and long-term care reimbursement policies.

FINDING 5— The district’s credit card practices are highly susceptible to fraud, waste, and abuse

The district’s credit card practices are highly susceptible to fraud, waste, and abuse because the district does not retain receipts or justification for credit card expenses and does not enforce the guidelines set forth in the district’s *Procurement Policies and Procedures*.

According to the credit card statements we reviewed, from May 1, 2018, through July 4, 2019, the district incurred \$144,833 in expenses on district-issued credit cards. We reviewed all transactions, totaling \$144,833, from six of the district’s credit cards, and found the district did not maintain receipts for \$47,021, or 32%, of the total expenses. We asked district management for purchase receipts; however, they were unable to provide such receipts during our review. The district is currently making efforts to obtain missing receipts from credit card holders. The district provided receipts for the credit card expenses relating to the district’s public affairs manager after the issuance of the draft report.

Travel

The district spent \$25,203 on travel-related expenses for which it did not retain receipts or written justifications. Following are examples of travel-related expenses missing supporting receipts:

- \$60 in baggage fees for the spouse of an Assistant General Manager on a round-trip flight from Los Angeles, California to Washington, D.C. The \$60 was never reimbursed to the district and it is unclear why the district paid for a non-employee's expenses;
- \$4,787 in lodging costs for the General Manager at the Renaissance Hotel in Denver, Colorado;
- \$2,901 in lodging costs for the General Manager at the Marriott Waikiki Beach, in Honolulu, Hawaii;
- \$1,253 in lodging costs for the Public Affairs Manager and Public Affairs Analyst at the Gaylord Opryland Resort in Nashville, Tennessee; and
- \$202 for an Uber trip taken by the Public Affairs Manager.

Meals

The district spent \$4,507 on meals for which it did not have receipts or written justifications. The following are examples:

- A \$146 charge for a dinner in Sacramento, California by a Board Director and an Assistant General Manager;
- A \$293 charge for a meal in Las Vegas, Nevada by Board Directors, consultants, and district staff; and
- A \$312 charge at Farmer Boys (a diner) in Bloomington, California by the General Manager.

Miscellaneous

The district spent \$17,311 on miscellaneous charges for which it did not retain receipts or written justifications. Miscellaneous charges are expenses that not considered travel- or meal-related, and include conference fees, training courses, PayPal charges, and balloon purchases. For example, the Public Affairs Manager incurred the following miscellaneous charges:

- Two \$450 charges, for a total of \$900, at Target; and
- Two \$438 charges, for a total of \$876, at Best Buy.

Without receipts and written justifications, we were unable to verify that the expenses were for district purposes.

Recommendation

We recommend the district:

- Review credit card charges for adequate documentation, justifications, and descriptions to ensure that they are eligible expenses;
- Retain supporting documentation at the district's offices;
- Develop and implement expenditure limits for meals, lodging, and travel; and
- Recover funds for erroneous reimbursement of non-district-related expenses.

District's Response

The district has established new purchasing requirements, and directed the purchasing department to report to the CFO. District officials must submit completed reimbursement forms and receipts for travel expenses to the CFO on a monthly basis.

The district provided receipts related to charges incurred by the Public Affairs Manager and requested that the discussion of those charges be removed from the report.

SCO Comment

We updated the finding to acknowledge receipt of supporting documentation for the credit card expenses relating to the district's public affairs manager.

The district provided supporting documentation and requested removal of the finding for the following expenses:

- \$1,253 in lodging costs for the Public Affairs Manager and Public Affairs Analyst at the Gaylord Opryland Resort in Nashville, Tennessee;
- \$202 for an Uber trip taken by the Public Affairs Manager;
- Two \$450 charges, for a total of \$900, at Target; and
- Two \$438 charges, for a total of \$876, at Best Buy.

The receipts for the above items were not available during our fieldwork.

After reviewing the receipts, it appears that the expenses are district-related, however, the finding remains because of the lack of internal controls. The documentation, while evidencing retention of receipts, does not show proper approval for the noted credit card expenses. The district failed to show that it reviews itemized receipts, to ensure appropriateness and eligibility, prior to paying the district's credit card balances.

It is important to review receipts, verify the business purposes of all expenses, and document purchase approvals before paying vendors.

The district did not provide us with supporting documentation for the other examples noted in the finding.

**FINDING 6—
District officials
failed to comply
with contracting
requirements and
purchasing
procedures**

During our review of the district’s contracting process from July 1, 2015, to July 31, 2019, we noted the district did not comply with its procurement requirements for professional services.

According to the district’s *Procurement Policy and Procedures*, agreements for professional services that exceed \$10,000 must be documented with written contracts and purchase orders. Contracts should be awarded to the lowest qualified bidder. The district would determine the lowest qualified bidder by reviewing three written quotes or qualifications packages solicited by the Request For Proposals/Qualifications process.

The district disregarded its procurement requirements for professional services when awarding contracts

The district awarded the following consultants with multiple contracts initially under \$25,000 and approved by the General Manager, then subsequently with much larger contracts with Board approval. The district awarded all contracts without following its procurement requirements regarding obtaining multiple requests for qualifications, proposals, or bids.

<u>Vendor Name</u>	<u>Description</u>	<u>Contract / Task Order Execution Date</u>	<u>Contract Amount</u>
David Turch and Associates	Consulting/Lobbying	1/16/2018	\$ 25,000
David Turch and Associates	Consulting/Lobbying	3/9/2018	150,000
LA County Public Safety, Security and Emergency Management Consulting Services, LLC	Task Order No. 1: Emergency management and public safety consulting services	7/11/2018	15,000
LA County Public Safety, Security and Emergency Management Consulting Services, LLC	Task Order No. 2: Emergency management and disaster assessments consulting services	3/7/2019	90,000
MV Cheng & Associates, Inc.	Task Order No. 1: Managerial audit of Financial Department operations	11/5/2018	12,000
MV Cheng & Associates, Inc.	Task Order No. 2: Various financial-related consulting services	3/7/2019	125 per hour ¹
MV Cheng & Associates, Inc.	Task Order No. 3: Prepare financial schedules for interim audit	3/7/2019	50,000
Rob Katherman Consulting	Consultant – System development	6/21/2018	85 per hour ²
Rob Katherman Consulting	Consulting services	7/1/2019	85 per hour ²

¹A corresponding purchase order \$50,000 was created on May 20, 2019.

²No minimum or maximum amounts are specified.

The district also awarded the following contracts, under \$25,000 and approved by the General Manager, without competitive proposal solicitations:

Vendor Name	Description	Contract / Task Order Execution Date	Contract Amount
Aerotek	Temporary staffing services	12/13/2018	\$ 25,000
Avant Garde	Funding needs analysis	9/14/2018	15,000
Clifton Engineering	Task Order No. 1: Managerial audit for district engineering activities	8/6/2018	10,000
Clifton Engineering	Task Order No.2: Grant application	8/6/2018	15,000
Clifton Engineering	Feasibility study; preliminary engineering design report	6/13/2019	25,000
CV Strategies	Outreach and community relations	1/4/2018	15,000
Davin N. Commons	Asset/Project management consulting	8/6/2018	10,000
R. William Mathis	Recruitment services	6/20/2019	25,000
R. William Mathis	District retreat – Strategic plan development	6/20/2019	25,000
Garry Parker	Asset/Project management consulting services	8/6/2018	10,000
M.H.M. & Associates	Grants development	8/6/2018	25,000
M.H.M. & Associates	Grants development	6/20/2019	25,000
Raintek Enterprises, Inc.	Asset/Project management consulting services	8/6/2018	10,000
Raintek Enterprises, Inc.	Asset management workshop and asset register development	12/4/2018	25,000
RASTEC, Inc.	Consulting services	8/6/2018	25,000
Raul Arevalo	Managerial audit for Operations and Maintenance activities	8/6/2018	10,000
The Wolcott Company	Development plan; department overview, analysis, and assessment	11/5/2018	10,000

District did not process requests for qualifications for legal services

The district did not process requests for qualifications when obtaining legal services over \$10,000, as required in *Procurement Policies and Procedures*. Instead, the Board awarded contracts to legal firms based on the recommendations of the General Counsel, Tafoya and Garcia, LLP.

In addition to Tafoya and Garcia, LLP, the district contracts with many other legal firms. We calculated the total payments to legal firms, as shown in the following table:

Attorney Agreements	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Total
Albright, Yee & Schmitt, APC	\$ -	\$ 52,389	\$ 72,845	\$ 210,809	\$ 336,043
Larson O’Brien LLP	82,635	102,568	50,858	20,263	256,324
Law Office of Willoughby & Associates	-	-	43,292	-	43,292
Leal Trejo Attorneys at Law	-	-	-	132,098	132,098
Tafoya Law Group APC	35,206	212,370	163,172	333,521	744,269
The Kaufman Law Firm, APC	-	-	-	97,945	97,945
Varnert & Brandt	-	-	14,188	74,624	88,812
Ziprick & Cramer, LLP	-	-	8,424	20,781	29,205

By bypassing the established procurement process, the district failed to exercise due diligence to ensure public resources were spent in a cost-effective manner.

Questionable use of sole-source designations

The district circumvented its normal purchasing procedures through a questionable use of sole-source contracts.

The district's *Procurement Policy and Procedures* contain exceptions to normal purchasing procedures, one of which is when supplies, equipment, or services can be obtained only from a single source. In such cases, the district should document how it determined that a vendor or contractor was a sole source.

We noted instances in which district management designated contractors as sole-source providers without justification, thereby allowing the district to circumvent normal purchasing process. The district approved contracts with vendors as sole-source providers as follows:

- Aerotek was contracted to provide a temporary labor force. During FY 2018-19 and FY 2019-20, the district paid Aerotek \$47,589 and \$66,351, respectively;
- M.H.M. & Associates was contracted to provide grant application services. During FY 2018-19 and FY 2019-20, the district paid M.H.M. & Associates \$15,750 and \$9,150, respectively; and
- M.V. Cheng & Associates, Inc. was contracted to provide financial and accounting services. During FY 2018-19 and FY 2019-20, the district paid M.V. Cheng & Associates, Inc. \$33,131 and \$7,365, respectively.

Each of these consultants was one of many who provide similar services, and the district failed to provide adequate written justification of why these vendors were considered sole-source providers. Per our discussion with district management, these consultants were designated as sole-source providers because the district had worked with them in the past, and not necessarily because they were the only service providers in the area.

Lack of a written contract

The district hired Layne Christensen to repair water pumps and provide other services. However, instead of establishing a written contract, the district used purchase orders approved by the Engineering and Purchasing Departments. During FY 2016-17 and FY 2017-18, the district paid Layne Christensen \$74,502 and \$19,283, respectively.

We attempted to review the district's contract agreement with Layne Christensen to verify that the district properly followed its contract procurement process. The district could not provide us with its contract with Layne Christensen, although a contract is required per the *Procurement Policy and Procedures*.

Recommendation

We recommend the district:

- Fulfill its fiduciary responsibility by exercising oversight of its contracts;
- Develop and implement policies and procedures to ensure that management performs a detailed review and gains a full understanding before entering into any type of legally binding agreement;

- Document its business relationships with written contracts; and
- Comply with the established *Procurement Policy and Procedures*.

District's Response

The district reviewed these contracts and hired an accounting firm to prepare new purchasing policies and procedures.

FINDING 7— Employees might not have been paid correctly because of inaccurate timesheets and excessive paid holidays

Inaccurate timesheets

We reviewed the district's payroll reports for FY 2017-18 and FY 2018-19, and selected 17 timesheets with overtime to verify that the payments were supported with timesheets. We found seven of the 17 timesheets included total hours worked that did not correctly add up based on start and end times noted on the timesheets.

For one employee, we found 25 of the 83 time entries contained discrepancies that had not been reconciled by the supervisor. For example, on April 17, 2019, the employee reported working 10 regular hours and one overtime hour for a total of 11 hours, but reported working from 7:00 a.m. to 2:00 p.m. with a 30-minute lunch, which is only 6.5 hours. Given the discrepancies noted, it does not appear that the district's timesheets are thoroughly reviewed.

Timesheets should be accurate to ensure payroll is calculated correctly. Supervisors should investigate errors and correct them before submitting timesheets for processing.

Excessive paid holidays

The district does not record Flex Time Holiday hours in accordance with district policy and might have overpaid employees.

We noted employees on the 4/10 (four days per week and 10 hours per day) schedule were paid or accrued 10 hours of holiday time for each of the district's 14 paid holidays. As of September 2, 2019, 64 of 86 district employees were on the 4/10 schedule.

Article 7 (Employee Work Hours) of the *West Valley Water District Human Resources Policies & Practices Manual* states, in part:

708. FLEX TIME HOLIDAY

If a District holiday falls on a non-working day under the 9/80 schedule, 4/10 schedule or rotating schedule, each employee will receive nine (9) normal work hours added to the employee's holiday accrual bank to be used at another time designated by the employee with Supervisor approval.

With 64 employees on the 4/10 schedule and 14 paid holidays, the district is paying approximately 896 hours of extra holiday pay per year because it does not enforce its policy.

Recommendation

We recommend the district:

- Require supervisors to perform a thorough review of employee timesheets to ensure that they are accurate;
- Establish a policy to ensure that employees keep accurate records of hours worked;
- Enforce its policy regarding paid holidays, or consider revising the policy to specify allowable holiday accruals; and
- Recover any overpayments or adjust employee balances accordingly.

District's Response

The district implemented a new electronic time entry process, hired an accounting firm to develop new time-entry and payroll policies and procedures, and updated its policy to allow 10 hours of holiday credit for employees on the 4/10 schedule.

**FINDING 8—
High turnover and
lack of consistent
leadership have
hindered
operational
stability**

The district has a high degree of executive management turnover. From June 1, 2015, to August 30, 2019, the district had five General Managers, six Assistant General Managers, and nine Chief Financial Officers.

The high turnover at the district contributed to a lack of consistent leadership, resulting in operational instability, which affected the district's operations and employee morale. The high turnover has led to lapses in internal control in which the district deviated from established policies and procedures, and contributed to internal control deficiencies as noted in this report.

A consistent leadership structure would enable the district to plan, execute, control, and achieve its objectives.

Recommendation

We recommend the district:

- Develop and retain competent executive management staff; and
- Develop a succession plan to ensure continued leadership during management turnover.

District's Response

The board implemented a hiring freeze, hired a new interim HR manager, and directed the HR department to manage recruitments, transfers, promotions, salary changes, and to retain documentation related to recruitment.

**FINDING 9—
The district’s
directors did not
complete required
ethics training**

Local agency officials who receive any type of compensation, salary, or stipend, or who receive reimbursement for actual and necessary expenses incurred in the performance of their official duties, are required to receive at least two hours of ethics training every two years of their public service. The district directors receive compensation for attending meetings and receive reimbursements for expenses incurred on approved events. Therefore, they are required to complete ethics training.

GC section 53235 states, in part:

(a) If a local agency provides any type of compensation, salary, or stipend to a member of a legislative body, or provides reimbursement for actual and necessary expenses incurred by a member of a legislative body in the performance of official duties, then all local agency officials shall receive training in ethics pursuant to this article.

(b) Each local agency official shall receive at least two hours of training in general ethics principles and ethics laws relevant to his or her public service every two years.

We inquired with the Board regarding its compliance with the training requirement; the Board informed us all directors had completed the required two-hour ethics training. We requested copies of certificates of training completion; however, the district provided us certificates for only two of the five directors. GC section 53235.2 requires local agencies to maintain ethics training records for at least five years after local officials receive the training.

It appears three of the five directors did not complete their ethics training. Two of these directors were recently elected and began their terms in December 2017. GC section 53235.1 requires local officials to receive the ethics training no later than one year from the first day of service with the local agency. As of December 27, 2019, the district had not provided ethics training records for the three directors. Without these training records, we were unable to verify that the directors complied with their training requirements.

Recommendation

We recommend the district establish policies and procedures to ensure that Board Directors comply with ethics training requirements.

District’s Response

WVWD is in the final stages of obtaining a *District of Distinction* status through the Special District Leadership Foundation, which requires all board members to complete ethics trainings and submit a certificate of completion to the foundation.

Each board member completed ethics training (certificates of completion are attached).

SCO Comment

Our finding and recommendations remain unchanged.

The district provided copies of the three missing ethics training certificates; however, the required training was completed after the deadlines.

Appendix— Evaluation of Internal Control System¹

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
CONTROL ENVIRONMENT						
1.	Demonstrates Commitment to Integrity and Ethical Values					
	a. Sets the tone at the top	X			X	Refer to Findings 2, 3, 4, and 9.
	b. Establishes standards of conduct	X		X		
	c. Evaluates adherence to standards of conduct	X			X	Refer to Findings 2, 3, 4, and 9.
2.	Exercises Oversight Responsibility					
	a. Establishes oversight structure and responsibilities	X		X		
	b. Provides oversight for the system of internal control	X		X		
	c. Provides input for remediation of deficiencies in the internal control system	X		X		
3.	Establishes Structure, Authority, and Responsibility					
	a. Considers organizational structures	X		X		
	b. Defines, assigns, and limits authorities and responsibilities	X			X	Refer to Findings 6.

¹This evaluation tool is based on guidelines established by the GAO’s *Standards for Internal Control in the Federal Government*. The evaluation tool helps local agencies to identify internal control weaknesses. SCO uses the same evaluation tool for all of its internal control system reviews of local government agencies, regardless of size.

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
	c. Develops and maintains documentation of the internal control system		X		X	The district needs to develop and maintain a comprehensive documentation of its overall internal control system.
4.	Demonstrates Commitment to Competence					
	a. Establishes expectations of competence for key roles	X		X		
	b. Attracts, develops, and retains competent personnel	X			X	Refer to Findings 1 and 8.
	c. Plans and prepares for succession	X			X	Refer to Findings 1 and 8.
5.	Enforces Accountability					
	a. Enforces accountability of personnel through mechanisms such as performance appraisals and disciplinary actions	X		X		
	b. Considers excessive pressures	X		X		
RISK ASSESSMENT						
6.	Defines Objectives and Risk Tolerances					
	a. Defines objectives in specific and measurable terms	X		X		
	b. Considers risk tolerances for the defined objectives	X		X		

Appendix (continued)

Internal Control Attributes		Present? Y / N		Functioning? Y / N		Explanations/Conclusions
7.	Identifies, Analyzes, and Responds to Risks					
	a. Identifies risks throughout the entity to provide a basis for analyzing risks	X		X		
	b. Analyzes the identified risks to estimate their significance	X		X		
	c. Determines how to respond to risks	X		X		
8.	Assesses Fraud Risk					
	a. Considers various types of frauds	X			X	Refer to Finding 5.
	b. Assesses fraud risk factors - incentives and pressures, opportunities, and attitudes and rationalizations	X			X	Refer to Finding 5.
	c. Analyzes and responds to identified fraud risks	X			X	Refer to Finding 5.
9.	Identifies, Analyzes, and Responds to Change					
	a. Identifies and assesses changes that could significantly impact the entity's internal control system	X			X	Refer to Finding 8.
	b. Analyzes and responds to identified changes and related risks in order to maintain an effective internal control system	X			X	Refer to Finding 8.

Appendix (continued)

Internal Control Attributes		Present? Y / N		Functioning? Y / N		Explanations/Conclusions
CONTROL ACTIVITIES						
10.	Designs Control Activities					
	a. Designs control activities in response to the entity's objectives and risks	X			X	Refer to Finding 6.
	b. Designs appropriate types of control activities for the entity's internal control system	X			X	Refer to Finding 6.
	c. Considers at what level activities are applied	X			X	Refer to Finding 6.
	d. Addresses segregation of duties	X			X	Refer to Finding 6.
11.	Designs General Control over Information System					
	a. Designs the entity's information system to respond to the entity's objectives and risks	X		X		
	b. Designs appropriate types of control activities – general and application control activities, in the entity's information system	X		X		
	c. Designs control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing	X		X		
	d. Establishes relevant security management process control activities	X		X		

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
	e. Establishes relevant technology acquisition, development, and maintenance process control activities	X		X		
12.	Implements Control Activities					
	a. Documents in policies and procedures the internal control responsibilities of the organization	X			X	The district does not have an updated policies and procedures manual.
	b. Reassesses policies and procedures through periodic review of control activities		X		X	Refer to 12.a.
INFORMATION AND COMMUNICATION						
13.	Uses Quality Information					
	a. Identifies information requirements	X		X		
	b. Obtains relevant data from reliable internal and external sources in a timely manner	X			X	Refer to Finding 7.
	c. Processes the obtained data into quality information within the entity's information system	X			X	Refer to Finding 7.
14.	Communicates Internally					
	a. Communicates internal control information throughout the entity using established reporting lines	X		X		
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X		X		

Appendix (continued)

Internal Control Attributes		Present?		Functioning?		Explanations/Conclusions
		Y	N	Y	N	
15.	Communicates Externally					
	a. Communicates to external parties, and obtains quality information from external parties using established reporting lines	X		X		
	b. Selects appropriate methods of communication and considers factors such as audience, nature of information, availability, cost, and legal or regulatory requirements	X		X		
MONITORING						
16.	Conducts Ongoing Monitoring Activities					
	a. Establishes a baseline to monitor the internal control system	X		X		
	b. Considers a mix of ongoing and separate evaluations	X		X		
	c. Objectively evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues	X		X		
17.	Evaluates Issues and Communicates and Remediates Deficiencies					
	a. Reports internal control issues through established reporting lines to the appropriate internal and external parties in a timely manner	X		X		
	b. Evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies	X			X	Refer to Finding 5.
	c. Monitors, completes, and documents corrective actions	X			X	Refer to Finding 5.

**Attachment—
West Valley Water District's Response to
Draft Review Report**



DATE: April 29, 2020

TO: Betty T. Yee, California State Controller

FROM: Shamindra (Rickey) Manbahal., Chief Financial Officer

SUBJECT: Response to SCO's Review of WVWD Internal Control System Audit

On Wednesday, April 15, 2020, West Valley Water District (WVWD) Chief Financial Officer and General Manager received a draft report and review from the California State Controller's Office of our internal control system. Prior to this report (as of December 19, 2019), WVWD Board President Channing Hawkins and the Board of Directors took action to alleviate many of the issues detailed in the draft audit.

Finding 1 – District officials overrode established process for hiring and promoting employees.

- On December 19, 2019, WVWD Board of Directors voted to halt all hiring due to suspected irregularities.
- On January 16, 2020, the board hired an interim human resources and risk manager. During this meeting, the board unanimously approved a temporary hiring freeze resolution.
- On January 16, 2020, the board informed the public that Human Resources will manage all recruitments, internal transfers, promotions, salary changes and performance evaluations until new policies and procedures are implemented.
- On January 16, 2020, the board ordered all documentation related to the recruitment process be retained in the human resources department.

Finding 2 – A costly board meeting was held outside of district boundaries.

- From August 2 to August 4, 2019, WVWD held a retreat at Temecula Creek Inn for team building, planning and other topics. There were no adequate facilities within the West Valley to hold this retreat. It was noticed and recorded as a special meeting for transparency purposes. However, this meeting was not a board meeting. It was an off-site retreat for the board and executive staff, which is a customary practice. From November 2 to November 4, 2018 WVWD held a retreat for team building, planning at Temecula Creek Inn and in 2016, WVWD also held another retreat at Lake Arrowhead. This practice is in accordance with the State of California Government Code Section 54954 (b)(4), which requires that all *meetings* be held within the district boundaries unless facilities are not available in the district for the purpose intended. In this case, adequate facilities for the retreat were not located within the district boundaries.

Finding 3 – The District paid directors’ questionable compensation for meetings.

- On March 5, 2020 , President Hawkins introduced the following directives:
 - Board members and employees must complete expense reimbursement forms with receipts attached for all travel, conference, meals, expenses, etc. and submit them to the chief financial officer (CFO) for reimbursement.
 - Board members must attach a meeting agenda to each reimbursement or stipend form for every meeting for which they request reimbursement.

Finding 4 – The district incurred expenditures that are excessive and questionable, and lacked proper approval.

- On March 5, 2020, Board President Hawkins introduced the following directives:
 - Board members and employees must complete expense reimbursement forms with receipts attached for all travel, conference, meals, expenses, etc. and submit them to the CFO for reimbursement.
 - Board members must attach a meeting agenda to each reimbursement or stipend form for every meeting for which they request reimbursement.
 - All employees must attach receipts to each expense reimbursement form, which includes all incurred expenses (including credit card purchases). These forms must be submitted to the accounting department on a monthly basis.
 - The CFO must prepare new travel and reimbursement policies and a new reimbursement request form that requires supporting documents for all reimbursement requests.
 - The CFO, human resources director and legal counsel will develop a new reimbursement policy for board of directors’ paid long-term care.

Finding 5 – The District’s credit card practices are highly susceptible to fraud, waste, and abuse.

- On March 5, 2020, the board approved the following directives:
 - The purchasing department and all purchasing functions will report to the CFO.
 - Board members and employees must complete expense reimbursement forms with receipts attached for all travel, conference, meals, expenses, etc. and submit them to the CFO for reimbursement.
 - Board members must attach a meeting agenda to each reimbursement or stipend form for every meeting for which they request reimbursement.
 - All employees must attach receipts to expense reimbursement forms from all incurred expenses (including credit card purchases) and submit them to accounting on a monthly basis.
- **Travel**
 - The report claims that WVWD spent \$25,203 on travel-related expenses and did not retain receipts or written justifications. The following lists information related to the missing receipts:
 - \$1,253 in lodging costs for the public affairs manager and public affairs analyst at the Gaylord Opryland Resort in Nashville, Tennessee; and

- Supporting documents are available in the public affairs manager’s expense report file (see copies attached). *WVWD respectfully requests the removal of this finding from the report.*
 - \$202 for an Uber trip taken by the public affairs manager.
 - Supporting documents are available in the public affairs manager’s expense report file (see copies attached). *WVWD respectfully requests the removal of this finding from the report.*
- **Miscellaneous**
 - The report claims WVWD spent \$17,311 on miscellaneous charges for which it did not retain receipts or written justifications, which includes the following charges from the public affairs manager:
 - Two \$450 charges for a total of \$900 at Target; and
 - Two \$438 charges, for a total of \$876, at Best Buy.
 - Supporting documents are available in the public affairs manager’s expense report file (see copies attached). *WVWD respectfully requests the removal of this finding from the report.*

Finding 6 – District officials failed to comply with contracting requirements and purchasing procedures.

- On December 19, 2019, President Hawkins called a special meeting on January 9, 2020 to review professional services contracts.
- The board reviewed all of these contracts on January 9 and January 25, 2020.
- On March 5, 2020, the board approved an agreement with a certified public accounting firm to prepare a new manual that includes new accounting and purchasing policies and procedures.

Finding 7 – Employees might not have been paid correctly because of inaccurate timesheets and excessive paid holidays.

- This finding occurred when timesheets were processed manually, which was conducive to human error. Since then, WVWD implemented an electronic time entry and management approval process, which corrects inaccurate timesheets and excessive pay.
- On March 5, 2020, the board approved an agreement with a certified public accounting firm to prepare a new manual, which includes new accounting, purchasing, time-entry and payroll policies and procedures.
- Flex-time holiday excessive pay is a result of the addition of a 4/10 schedule. This schedule is designed to pay an employee for holiday pay based on their work schedule. If an employee is on the 4/10 schedule, they are paid 10 hours for district observed holidays instead of 8 hours. This policy was changed under the new human resources policies.

Finding 9 – High turnover and lack of consistent leadership have hindered operational stability.

- On December 19, 2019, the board ordered the general manager to halt all hiring until a resolution is adopted.
- On January 16, 2020, the board hired an interim human resources and risk manager. During this meeting, the board unanimously approved a temporary hiring freeze resolution.

- On January 16, 2020, the board informed the public that Human Resources will manage all recruitments, internal transfers, promotions, salary changes and performance evaluations until new policies and procedures are implemented.
- On January 16, 2020, the board ordered all documentation related to the recruitment process be retained in the human resources department.

Finding 10 – The district’s directors did not complete required ethics training.

- WVWD is in the final stages of obtaining a *District of Distinction* status through the Special District Leadership Foundation, which requires all board members to complete ethics trainings and submit a certificate of completion to the foundation.
- Each board member completed ethics training (certificates of completion are attached).

Respectfully Submitted,

Rickey S. Manbahal
Chief Financial Officer

**State Controller's Office
Division of Audits
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