

STATE OF THE DISTRICT IN APRIL 2024: ONE YEAR AFTER THE GRAND JURY REPORT

On March 15, 2023, the Sacramento County Grand Jury released a report outlining 12 areas of concern regarding the Rancho Murieta Community Services District (the District). The 12 Findings included specific recommendations on how to correct the issues. This report is intended to demonstrate the considerable progress made by the District to address the issues and improve the state of the District.

FINDING # 1: LOST TRUST REGARDING PRUDENT FINANCIAL DECISIONS.

RECOMMENDATION: UPGRADE BILLING AND ACCOUNTING SYSTEMS

A new billing system was launched in April of 2023. A Tyler Technologies product, Utility Billing had a rocky start, but has normalized as staff have grown more familiar with how it works. A plan to transition to Tyler's financial accounting system has been suspended due to concerns that the process of shifting to a new financial system prior to completing all outstanding annual audits would create accounting difficulties. Staff believes the current system is functioning as intended and an upgrade to enhance efficiency is being planned for Fiscal Year 25-26.

FINDINGS # 2, #3, AND #4: INADEQUATE AND UNRELIABLE FINANCIAL REPORTING INCLUDING TWO OVERDUE ANNUAL AUDITS, RISK OF FRAUD, AND THE IMPACT ON PUBLIC TRUST AND TAX/FEE INCREASES.

RECOMMENDATION: COMPLETE AUDITS, HIRE AND TRAIN QUALIFIED STAFF, PREPARE AP LISTING EACH MONTH, TRACK INVOICES, & PREPARE MANUALS DOCUMENTING ACCOUNTING PROCEDURES

The District worked extensively with auditors to finalize the 20-21 audit in late February 2024. Audits for 21-22 and 22-23 are expected to be finalized before January 2025. New staff have been hired – including a new General Manager and a new Director of Finance and Administration. Improved business procedures are in place and the organization is getting back on track regarding proper oversight of financial operations. The District implemented Positive Pay, a system that ensures that only verified payments clear the District's account and provides a listing of all payments at each monthly Board Meeting.

The District agrees that the need to have strong internal controls and capable staff is critical for effective, risk-free operation of the organization. The District hired individuals with strong financial management skills to ensure proper accounting procedures are established and followed to guarantee the integrity of the accounting data.

Budget to Actual reports are now being produced each month as part of the renewed commitment to effective financial management.

FINDINGS #5, #6, AND #7: LACK OF EFFECTIVE STAFF MANAGEMENT, TURNOVER, AND INSTITUTIONALIZED ACCOUNTING KNOWLEDGE INTERFERED WITH DISTRICT OPERATION.

RECOMMENDATIONS: IMPROVED AND REQUIRED TRAININGS, HIGHER LEVEL REVIEW OF PERSONNEL ADVERSE ACTIONS, AND QUARTERLY REPORTS RE STAFF DEVELOPMENT AND CONCERNS

The District agrees that sound human resources management is important for organizational effectiveness and has put many legacy HR issues behind it.

Employee turnover had one of the most significant negative impacts on the District's financial management, but the District has minimized staff turnover in the last year. New skilled and knowledgeable accounting staff have significantly improved the overall financial management of the District. The District has made great strides in improving employee morale in the last year.

The District initiated annual Board and staff trainings to address gaps identified in the Grand Jury report. These include staff and Board training program regarding Brown Act compliance, accounting procedures, and workplace practices and behaviors including prevention of harassment in the work environment.

The Board of Directors receives reports on staff development each month in the General Manager's Report. The District still needs to establish a policy to ensure that someone not in the chain of command review proposed personnel adverse actions to ensure that discipline is fairly and consistently applied in addressing performance or conduct issues.

FINDING #8: THE LACK OF AN UPDATED CAPITAL RESERVE POLICY HAS CONTRIBUTED TO POOR MANAGEMENT AND INADEQUATE CAPITAL RESERVE.

RECOMMENDATION: REVISE FUND POLICY TO IDENTIFY SPECIFIC FUNDING GOALS FOR EACH CATEGORY WITH SUPPORTING FEES SUFFICIENT TO MEET THE DISTRICT'S INFRASTRUCTURE NEEDS.

The Board agrees that service fees sufficient to meet the long-term infrastructure needs of the District are critical and initiated efforts in that regard with the budget for FY23-24 and is proposing additional increases in service fees for 24-25.

Staff is updating the 2012 District Reserve Policy to more accurately define the current reserve "buckets" and to reflect the need for reserves that fully cover anticipated future capital outlay needs. A 20-year capital improvement plan study is underway with recommendations expected by May of 2024.

FINDING #9: THE USE OF COUNTY PROPERTY TAX FUNDS TO SUBSIDIZE ITS GROWING SECURITY COSTS WITHOUT RAISING THE SECURITY FEES HAS JEOPARDIZED THE FINANCIAL STABILITY OF THE DISTRICT.

RECOMMENDATIONS: THE DISTRICT SHOULD REDUCE ITS SECURITY SERVICES FUNDING TO A LEVEL THAT IS SUPPORTED BY FEES PAID BY RESIDENTS SPECIFIC TO FUND SECURITY SERVICES AND COUNTY TAX FUNDS CURRENTLY ALLOCATED TO SECURITY SERVICES, SHOULD BE REDIRECTED TO THE CAPITAL RESERVES.

In FY 23-24, the Board approved a spending plan for Security that only provided \$50,000 in Property Tax Support for the security program. The overall program budget was reduced by \$250,000 to move toward self-sufficient funding of security. In January of 2024, staff re-allocated the indirect cost rates for funding

central service administrative costs. The previous allocation was determined to be excessively burdensome on security. This reallocation eliminated the need to use any property tax revenues to keep security operating in the black. The status quo staffing levels enable the program to be operating in the black. However, recent MOU increases will continue to exceed the 2% increase to security taxes authorized by Measure J in 1998. At some point voters will need to decide if they are willing to pay more to maintain current and/or additional services. The annual 2% increase has not kept pace with the increased costs. This gap led to the use of the property tax allocation to cover the expected security services.

The District is now focused on how to determine what level of security services can be provided within available security resources and is working with the Rancho Murieta Association (RMA) to map out security service levels.

FINDING #10: THE CAPITAL RESERVES ARE UNDERFUNDED BY OVER \$10 MILLION, JEOPARDIZING THE FINANCIAL STABILITY OF THE DISTRICT.

RECOMMENDATIONS: *THE DISTRICT BOARD SHOULD REVISE ITS CURRENT CAPITAL RESERVE FUND POLICY TO IDENTIFY SPECIFIC FUNDING GOALS FOR EACH CAPITAL ASSET CATEGORY WITH SUPPORTING FEES SUFFICIENT TO MEET THE LONG-TERM INFRASTRUCTURE NEEDS OF THE DISTRICT.*

The RMCSB Board is committed to full and compete reserve funding but believes that the exact needs for future infrastructure replacement were not known last year. A study of the District's 20-year capital improvement needs is underway with recommendations expected by May of 2024 which will recommend the reserve funding needed for the next 20 years.

The Board agrees that service fees sufficient to meet current operating expenses and the long-term infrastructure needs of the District are critical and initiated efforts in that regard with the budget for FY23-24 and is proposing increased service fees for 24-25 to ensure operating expenses are covered and additional reserves are funded. Staff is updating the 2012 District Reserve Policy to more accurately define the current reserve accounts and to reflect the need for reserves that fully cover anticipated future capital outlay needs.

FINDING #11: THE DISTRICT INAPPROPRIATELY SUBSIDIZED RMCC'S COST OF RECLAIMED WATER.

RECOMMENDATIONS: *THE DISTRICT BOARD SHOULD REVISE ITS AGREEMENT WITH THE RMCC AND BEGIN CHARGING FOR THE USE OF RECLAIMED WATER ON THE RMCC GOLF COURSES AT RATES TYPICAL IN THE SACRAMENTO AREA BY JANUARY 1, 2024.*

The District's current reclaimed water operations are designed to comply with regulatory and legal requirements. The District's wastewater permit has long prohibited the District from discharging treated effluent from the District's wastewater treatment plant to waterways. The only approved disposal method for District treated effluent is irrigation within the authorized areas described in the permit. To remain in compliance with its wastewater permit, the District must have a reliable irrigation user for its treated effluent. A long-term agreement between the District and the RMCC solves both the District's effluent disposal issue and golf course irrigation. The [water agreement with RMCC](#) expires in 2028 and will be updated in the next few years.

FINDING #12: A PERCEIVED CONFLICT OF INTEREST EXISTS IN THE COMMUNITY DUE TO A CLOSE RELATIONSHIP BETWEEN THE DISTRICT, THE RMA AND THE RMCC AND THEIR RESPECTIVE BOARD MEMBERS.

RECOMMENDATIONS: *THE DISTRICT BOARD AND STAFF SHOULD AVOID PERCEPTIONS OF CONFLICTS OF INTEREST IN THEIR FIDUCIARY RESPONSIBILITIES TO PROTECT THE INTERESTS OF THE DISTRICT AND ITS RATE PAYERS.*

The Board still disagrees with this finding. The Board complies with the District's Policy No. 2005-6 which prescribes ethical rules for Board Members, requires annual conflict of interest reporting, and prohibits conflicts of interest. The Board is unaware of any legal conflicts of interest pertaining to Board Members, the homeowner's association's Board of Directors, and the country club.

The functions of each organization and the roles and responsibilities of each organization's board of directors are clear. The boards are solely responsible for their specific missions and fiscal responsibilities of each organization. There are times when these three organizations can assist each other such as sharing specialized equipment during extreme flooding. The organizations will continue to be interconnected and work cooperatively to ensure the needs of the community are met.

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