California State Auditor

FACT SHEET

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The California State Auditor released the following report today:

Central Basin Municipal Water District

Its Board of Directors Has Failed to Provide the Leadership Necessary for It to Effectively Fulfill Its Responsibilities

BACKGROUND

Serving a population of more than two million people in 24 cities in southeast Los Angeles County and some unincorporated areas, the Central Basin Municipal Water District (district) acquires, sells, and conserves imported and other water that meets its customers' needs. A five-member board of directors (board) governs the district and, among other duties, is responsible for setting the district's policies, approving its annual budget, and appointing its chief executive—the general manager.

KEY FINDINGS

During our review of various aspects of the district's operations from July 2010 through June 2015, we noted the following:

- The board's poor leadership, decision-making and oversight hinder the district's ability to meet its responsibilities.
  - ✓ Six different individuals have served as chief executive and five different individuals and one financial services firm have served as the finance director or an equivalent position.
  - ✓ It has an ineffective structure for investigating complaints regarding its members' or district staff's violations of laws and district codes related to ethics.
  - ✓ Until recently, the board had not approved a strategic plan for several years and it did not require the district to create a long-term financial plan—the district has endured revenue shortfalls for years, has averaged a $2.9 million operating deficit in three of the past five fiscal years and suffered two credit rating downgrades.
  - ✓ Because of the board's inaction and poor decisions, the district is paying more for less general liability and employment practices liability insurance coverage.
- The board violated state law by creating a legal trust fund without adequately disclosing it to the public. It also allowed its outside legal counsel to make payments from this $2.75 million fund without ensuring funds were used appropriately.
- The district inappropriately avoided competitively bidding 11 of the 20 contracts we reviewed and it used amendments to extend and expand contracts—over a three-year period, it executed a total of 134 amendments to 65 contracts, increasing the total cost of the associated contracts from roughly $14 million to nearly $30 million.
- The district did not follow best practices in managing its contracts—most of the contracts we reviewed lacked critical elements of a scope of work and the district paid certain consultants before the work was performed.
- The district hired some unqualified staff, created a new position without proper approval, and incurred unnecessary expenses. We noted four hires in which the district did not comply with its policies, two of which resulted in legal disputes and another caused the district to incur unnecessary expenses.
- Some of the benefits it gives board members may be too generous—a $600 monthly automobile or transportation allowance, a $200 monthly allowance for personal communication devices, and up to $2,000 per month for health benefits even though they are not full-time employees.

KEY RECOMMENDATIONS

We made one recommendation to the Legislature and several to the board including the following:

- The Legislature should preserve the district as an independent entity but modify its governance structure to ensure it remains accountable to those it serves—it could change the district's board from one elected by the public at large to one appointed by the district's customers.
- The board should set a formal policy for hiring the general manager for the stability of the district's operations; complete a long-term financial plan for financial sustainability; and negotiate cost-effective and appropriate insurance coverage.

Additionally, we made numerous recommendations to the district aimed at improving its revenue estimates, setting water rates, improving its financial condition and avoiding additional costs due to downgrades of its debt credit ratings, amending contracting policies, and ensuring expenditures are appropriate and align with the district's mission. Other recommendations were geared toward improving district hiring and compensation practices.

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