

**MINUTES OF THE  
MOULTON NIGUEL WATER DISTRICT  
FINANCE & INFORMATION TECHNOLOGY  
BOARD OF DIRECTORS' MEETING**

**MARCH 16, 2011**

The regular meeting of the Finance & Information Technology Board of Directors was held at the District office, 27500 La Paz Road, Laguna Niguel, California, at 9:00 a.m. on Wednesday, March 16, 2011. There were present and participating:

**DIRECTORS**

BRIAN PROBOLSKY	Chairman
SCOTT COLTON	Director
RICHARD S. FIORE	Director
DON FROELICH	Vice President
GARY R. KURTZ	Director
LARRY R. LIZOTTE	Director
LARRY MCKENNEY	President

Also present and participating were:

**STAFF MEMBERS**

ROBERT C. GUMERMAN	General Manager
DAVID D. CAIN	Director of Finance/Treasurer
MATT COLLINGS	Director of Engineering & Operations
CHARLES J. ROY	Director of Customer Service
JANE NGUYEN	MNWD
NANCY DESAI	MNWD
LESLIE GRAY	MNWD
KARREN MADDOX	MNWD
NOLAN KING	MNWD
FRANI BAILEY	MNWD

**DISTRICT CONSULTANTS**

JENNIFER FARR	Mayer Hoffman McCann
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**PUBLIC MEMBERS**

ANDY ZALAY	E Wind Farm, Inc.
MICHAEL KOGUS	Resident

Absent was:

There were no absences.

Chairman Brian Probolsky called the meeting to order and Frani Bailey recorded the minutes thereof.

## **ACTION ITEMS**

### **Board Room Enhancement Recommendation**

- **Chairman Probolsky directed Mr. Cain to bring back to the Board specifics and a recommended prioritization for the Board Room Enhancement project.**

### **APPROVAL OF MINUTES OF FEBRUARY 16, 2011 FINANCE & INFORMATION TECHNOLOGY BOARD OF DIRECTORS MEETING**

Chairman Probolsky requested approval of the minutes of the February 16, 2011 Finance & Information Technology Board of Directors meeting.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR KURTZ AND SECONDED BY DIRECTOR FROELICH, THE MINUTES OF THE FEBRUARY 16, 2011 FINANCE & INFORMATION TECHNOLOGY BOARD OF DIRECTORS MEETING WERE UNANIMOUSLY APPROVED AS PRESENTED.

## **PUBLIC COMMENTS**

Chairman Probolsky opened the Public Comments portion of the meeting for matters not listed on the agenda. He invited Mr. Michael Kogus to address the Board. Mr. Kogus commented that he noted on last year's financial report that the District has approximately \$150 million in long-term liabilities. He asked if the funds are allocated to certain projects or if the liabilities are from previous years and asked where he could get a full picture of the finances. Chairman Probolsky asked Ms. Nancy Desai to respond to Mr. Kogus' question. Ms. Desai explained that all of the money except for \$31 million has been spent in past years, and the District issued \$31 million in bonds in December 2009 for recycled water and Water Supply Reliability Projects. Further discussion ensued and Chairman Probolsky and Ms. Desai answered Mr. Kogus' questions.

Chairman Probolsky asked if there were any further public comments. Hearing none, he closed the public comments portion of the meeting.

## PRESENTATION ITEMS

### Discussion of Budget for Implementation of Proposed Water Budget Based Rate Structure

Dr. Gumerman reported that Mr. Cain has information to present that was requested by the Board last month. Mr. Cain reported that he provided to the Board an update indicating what is budgeted for the implementation of the Water Budget Based Rate Structure (WBBRS) and what has been spent through the end of February. He reported that the approved budget was \$354,000 and to date \$271,142 has been expended.

Director Lizotte commented that he asked the President of the Board of El Toro Water District (ETWD) how long it took ETWD to implement its WBBRS and the President indicated that ETWD worked on educating its customers for over a year before implementing the WBBRS. He commented that the District has many more residents to educate and President McKenney commented that the difference is whether the District is trying to educate the customers to get them to concur with the Board's vote to adopt the WBBRS or whether the District is educating the residents about what the Board has decided to do. He commented that the Board is trying to get to the point of deciding whether to implement the WBBRS and if it does, it will then educate the customers about how it will work. Further discussion ensued.

Director Lizotte commented that ETWD issues rebates to the customers who conserve water and commented that the District might want to consider this. He commented that the District has implemented a 16% increase the last three years and there should be some restraint. Chairman Probolsky commented that between the 218 Notice, the newsletters, and the newspaper articles there have been hundreds of thousands of points of contact with the customers, and the District has heard from approximately 200 customers and 50 to 60 showed up at the Public Hearing. A discussion ensued.

President McKenney commented that the Board has not decided what to do with the penalty revenue and Legal Counsel has advised that there are questions about being able to issue rebates to the customers who conserve water. He asked when the Board would have this discussion and Dr. Gumerman reported that the Board asked staff to bring back a draft policy on variance procedures and use of the penalty revenue at the April Board meeting. Director Fiore asked if the Board could have an opinion from Legal Counsel prior to the April Board meeting and Dr. Gumerman commented that Ms. Giannone previously read all of the uses for the penalty

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revenue that were allowed by the governing statutes. Director Fiore asked if he recalls correctly that rebates were not permissible and Dr. Gumerman commented that he believes rebates in the form of a credit on the bill are permissible. Mr. Roy commented that if a customer calls regarding a variance or has concerns about the acreage allocation being incorrect and District staff verifies that an adjustment should be made the customer is issued a credit the next month.

## DISCUSSION ITEMS

### Audit Report Peer Review – Jennifer Farr, Mayer Hoffman McCann

Chairman Probolsky reported that Ms. Jennifer Farr from Mayer Hoffman McCann, the District's current Auditor, is present to address the Board. He commented that the Board needs to decide whether to continue to retain Mayer Hoffman McCann as its Auditor due to the recent high profile coverage of the firm, and Ms. Hoffman is here to discuss the peer review of Mayer Hoffman McCann that was recently conducted. Chairman Probolsky invited Ms. Farr to address the Board.

Ms. Farr reported that she distributed to the Board a copy of the peer review report of Mayer Hoffman McCann by Carr Riggs & Ingram. She reported that Mayer Hoffman's government audit practice for California would have normally been subject to peer review this summer; however, Mayer Hoffman voluntarily elected to accelerate this peer review in light of its relationship as Auditor to the City of Bell for the year ended June 30, 2009. Ms. Farr explained that Mayer Hoffman accelerated the peer review to assist in rebuilding its clients' and the public's confidence in its service. She explained that the scope of the peer review covered multiple California government engagements, which differs from the State Controller's report on the City of Bell that only looked at one engagement performed by Mayer Hoffman McCann.

Ms. Farr reported that the peer review was completed on March 3, 2011, and Mayer Hoffman received an unqualified, or clean, audit opinion from Carr Riggs & Ingram. She explained that the format of the peer review report is specified by the auditing standards and the letter she distributed to the Board is the only report Mayer Hoffman received. Ms. Farr commented that Carr Riggs & Ingram's opinion supports Mayer Hoffman's belief that it conducted a quality municipal government auditing practice and complied with applicable professional standards.

Ms. Farr reported that this is the last year of Mayer Hoffman's five-year contract and the District will be required to go out for competitive bids for the Fiscal Year 2011-2012 Audit. She requested that the District allow Mayer Hoffman to continue with its final year of the Audit contract in light of the new information supporting the quality of the audit work it performed.

Director Lizotte commented that the adopted O&M budget for FY 2010-2011 does not reflect the budget the Board approved and asked if Mayer Hoffman audits the approved budget. Ms. Farr explained that since the District reports as an enterprise fund it is not required to include budget information in its financial document; therefore, Mayer Hoffman does not audit the budget as part of the Audit. Mr. Cain explained that the adopted budget becomes effective on July 1; however, during the 12-month cycle of time there are events and circumstances that occur that require staff to adjust the budget. He explained that staff brings requests for approvals of additional appropriations to the Board above and beyond the original budgeted amount, and the adjusted column is the revised number based on staff periodically requesting additional money. Further discussion ensued.

President McKenney commented that the District does not have any reason to change Auditors. Director Fiore commented that the Board very much appreciates Mayer Hoffman having an independent peer review of its practices. He commented that Carr Riggs & Ingram's report seems quite generic with respect to Mayer Hoffman's audit practices and does not necessarily focus on its Audit of the City of Bell. Director Fiore asked if Carr Riggs looked specifically at the City of Bell audit or the audits of specific municipalities, as it appears that Carr Riggs was simply evaluating the statement that Mayer Hoffman made with respect to its municipal audit practices. Ms. Farr reported that last year Mayer Hoffman audited 125 local governments and Carr Riggs picked a sample of specific engagements from the 125 audits. She explained that Carr Riggs reviewed audits from each of the six partners to assess whether or not they were appropriate and reviewed the audit work papers to see if they supported the conclusions made in the audits. Ms. Farr explained that consistent with the rights of privacy with respect to client confidential information, she is not allowed to disclose the specific engagements that were selected for the review; however, Carr Riggs had to feel comfortable that it looked at enough engagements to reach its opinion. Further discussion ensued and Ms. Farr answered the Board members' questions.

Chairman Probolsky commented that in a government audit Mayer Hoffman might be required to interpret things, form an opinion, and dig further than in a non-government audit, e.g., if Mayer Hoffman noted that the General Manager made \$600,000 per year. He commented that it seems that this obligation was completely lost in the City of Bell audit and asked how the District can be sure that the obligations that were ignored would be honored when auditing the District. Ms. Farr commented that there were no reporting requirements for salaries at the time Mayer Hoffman audited the City of Bell and the City Council approved the City Manager's contract; therefore, even if Mayer Hoffman thought the City Manager's salary was excessive there was no reporting mechanism other than going to the City Council and asking if they knew what they were paying the City Manager. She commented that in retrospect Mayer Hoffman realizes that it was a mistake not to have put something in a management letter about the salaries. She commented that Mayer Hoffman will now look not just at material consistency from the prior year but would focus on things that would surprise an outsider.

Chairman Probolsky commented that absent any reason other than the fact that the District is using Mayer Hoffman as its Auditor, he cannot support going forward with Mayer Hoffman. He commented that in light of the upcoming ERP implementation next year would be a harder time to break in a new Auditor than this year, and even if the District continues with Mayer Hoffman this year it probably would not use Mayer Hoffman next year. Chairman Probolsky recommended that staff request RFPs and include Mayer Hoffman in the RFP process. President McKenney asked when the RFP would be solicited if the process were to run its normal course and Ms. Desai reported it would go out in January 2012. Mr. Cain reported that if the Board desires that RFPs be solicited now staff would have to fast-track the process because there is an interim audit due in April and it would be very difficult to write an RFP, solicit a firm, give it time to respond, and reach an agreement.

Director Kurtz commented that he does not feel the Board should burden the staff with fast-tracking an RFP at this time. Further discussion ensued as to whether to continue using Mayer Hoffman as the District's Auditor. Director Lizotte asked if this is the last year of Mayer Hoffman's contract and Ms. Desai reported that Fiscal Year 2011-2012 is the final year of the agreement and at that time staff would solicit RFP's for January 2012. Ms. Farr commented that she would be willing to give the District a discount on the audit fee to keep staff from going out

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to bid this year and Director Fiore commented that he appreciates Ms. Farr's officer; however, the discussion has nothing to do with the fee Mayer Hoffman charges. Further discussion ensued.

Director Fiore commented that if the Board wanted staff to solicit RFPs it probably should not have waited until now to have that conversation. Director Kurtz concurred. President McKenney suggested that the Board direct staff to bring the RFP back for the following year and consider it in January and Mr. Cain commented that staff could start that process now. Director Fiore asked what staff's recommendation is and Mr. Cain commented there are several things to consider: from a staff perspective is Mayer Hoffman doing a good job on the audit, what the ramifications are due to the fact that the City of Bell was Mayer Hoffman's client, and what the Board's comfort level is. He commented that he needs to respect the Board's concerns with regard to the political issue; however, the practical side is that there would be a huge impact on staff by making a change now. Director Lizotte suggested that Ms. Farr clarify the additional reporting that Mayer Hoffman would be doing in light of the City of Bell situation and Ms. Farr reported that Mayer Hoffman would be finalizing those procedures soon. She elaborated on some of the things that Mayer Hoffman would do in the next Audit that it previously has not done.

Further discussion ensued regarding retaining Mayer Hoffman for the final year of its contract with the District. Ms. Desai commented that she has been at the District since the previous Auditors were used and since Mayer Hoffman has been doing the Audit and has seen a tremendous amount of accountability on the part of Mayer Hoffman and the District staff since Mayer Hoffman was hired. She commented that significant changes have been made to the District's reporting process and internal controls since Mayer Hoffman was hired, and over the last five years Mayer Hoffman has done an excellent job in bringing the District up to where it needs to be. Ms. Farr answered the Board members' questions and further discussion ensued. Director Colton commented that he feels the District should let Mayer Hoffman complete the last year of its contract and is quite sure that Mayer Hoffman will be looking harder at the District than it did the year before.

Chairman Probolsky commented that given the discussion today he would suggest that Mr. Cain take advantage of any discounts offered by Ms. Farr and that the Board move forward with the next item on the Agenda.

### Board Room Enhancement Recommendation

Mr. Cain presented staff's recommendations regarding the upgrades for the Board Room as well as the technology enhancement. He commented that as the Board is aware, the major issues staff is addressing are updating the recording equipment and taking advantage of current technology to record the meetings in an audio format that can be put on the District's website to increase and improve the transparency of information to the District's customers. Mr. Cain reported that staff recommends going forward with a vendor that would allow flexibility in terms of identifying solutions. He commented that he received pricing from two firms with whom staff is comfortable moving forward for software and hardware packages to change how presentations are done in the Board Room. Included in the pricing is the cost of changing the lighting system in the Board Room to increase efficiency and enhance presentations, changing the microphone system, and going to a touch screen system that would enable the Directors to vote and access agenda materials and staff reports. Mr. Cain reported that the technology also supports laptops, iPads and any amount of technology the Board wants. He explained some of the other features of the technology.

Director Fiore asked if Mr. Cain is suggesting all of these changes or if he is suggesting hiring a vendor to provide a proposal. Mr. Cain reported that the vendors he has spoken with have given him the proposals for what he described and Dr. Gumerman explained that Mr. Cain is explaining to the Board the general direction staff would like to go, and staff will bring back a contract for approval at a later date. Mr. Cain explained that today he is asking for Board approval to move forward with his recommendation and meet with the vendor regarding the specifics of what the District wants. He reported that the cost of \$150,000 reflected in his staff report includes equipment, software, hardware, training, configuration, and implementation. Mr. Cain reported that the vendor he is considering also provides a full document management system, which could potentially be incorporated into the ERP system.

Director Lizotte asked how this project fits into the budget, what the total budget encompasses, and what portion of the budget the \$150,000 is. Mr. Cain reported that the Board Room Enhancement line item was included in the CIP budget and Director Lizotte suggested that Mr. Cain include in his staff report the total budget and indicate what portion this project represents. Mr. Cain reported that \$35,000 of the \$150,000 was budgeted in this year's CIP

budget as a line item and there is money available in the bottom line to cover the full cost of the project. He explained that the \$40,000 would be a part of the ERP costs. Director Fiore asked if the enhancements would save the District money and Mr. Cain reported that it would and elaborated on the savings. Further discussion ensued and Mr. Cain answered the Board members' questions.

Director Froelich suggested that Mr. Cain prioritize the most immediate needs, such as recording the meetings, introducing electronics into Board communication of the agenda materials, and making the information more easily available on the website and have a phased approach. Director Lizotte commented that until he sees some budget numbers he is not prepared to vote on this and Mr. Cain commented that he is not asking for a vote on the numbers. He explained that once he receives the final quotes and bids he would bring the matter back to the Board with a line item cost and a recommendation to approve a contract with a vendor and installer. Mr. Cain reported that he wanted to inform the Board that if the District were to implement everything he has discussed it would cost approximately \$150,000, and wanted get some direction in terms of moving forward with staff's recommendations. He commented that if the Board desires, staff could take a phased approach to this, although there could be a difference in costs depending on the phasing.

Director Fiore commented that he liked Director Froelich's suggestion to prioritize what staff thinks is essential and would like to see specific costs for specific items. Chairman Probolsky cautioned the Board against trying to have a Board Room line item discussion because it is complicated and one line item does not necessarily affect another line item. He commented that the overall budget Mr. Cain presented is not out of line and he is confident that the District will see a return on its investment not only in better outreach, but in better flow in the Board Room and throughout the District in the process leading up to the Board meetings. Chairman Probolsky commented that he would like Mr. Cain to have a sense that all of the ideas he presented sound somewhat OK and the budget doesn't seem to be a problem as long as he answers Director Lizotte's specific questions. He commented that at this point it should be possible for Mr. Cain to come back with a specific budget and a specific vendor behind it, and to do so he needs guidance from the Board. Director Froelich suggested that it would be helpful

when Mr. Cain brings this back to the Board if he indicated the alternatives he looked at, why he selected what he did, if there is any savings.

Chairman Probolsky asked if the Board could support in general a recommendation from Mr. Cain containing a specific vendor and specific line items of services tied to that vendor in the range of \$150,000 over the next year. A discussion ensued and the Board members indicated that they could. Chairman Probolsky directed Mr. Cain to come back to the Board with some specifics and a recommended prioritization for this project.

#### Financial Policies Adoption

Mr. Cain reported that last month he presented to the Board a list of recommended policies and received feedback from the Board in terms of specific areas and language. He reported that he included a staff report in the agenda package for the Board's review. Mr. Cain reported that staff made the changes the Board requested and added a couple of sections not in the previous draft and this item is on the agenda for approval at the Board meeting on Thursday night.

Director Fiore asked if there is anything different in the Financial Policies Mr. Cain is presenting today from the existing policy. Mr. Cain reported that there is not. He commented he took out one statement under Procurement that was in conflict with an existing policy, which was in the draft presented to the Board last month.

#### Review Financial Statements for the Period Ended February 28, 2011

Ms. Nancy Desai reviewed the Investment Activity Summary for the period of 2/1/11 through 2/28/11. She reported that the total investment portfolio as of February 28, 2011 is \$120,787,195. She reviewed the fund balances as of February 28, 2011 and the Restricted Trust Account balances and answered the Board's questions. Ms. Desai commented that there is nothing of significance to report.

Ms. Desai reviewed the Budget Comparison for the eight months ending February 28, 2011. She reported that Line Item 31, Utilities, has a large negative balance because there was an error in the way the accrual of the utilities was done. Ms. Desai reported that the error should correct itself in the future. Director Lizotte asked if it would be helpful to add a Line Item 13a for the OPEB requirement to separate it from Line Item 13, Insurance – Life, Dental, Health & Disability. Ms. Desai reported that the OPEB expenses are reflected in Line Item 22 –  
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Retirement Program. She reported that she could add a footnote stating with the OPEB costs are each month and Director Lizotte commented that it would be helpful. Director Fiore asked about Line Item 14, Legal Services – Outside Counsel, and Dr. Gumerman reported that the fees were for services provided by Brad Neufeld and another attorney relative to issues related to personnel matters, and that the fees were more inclusive than just the MOU negotiations with the MNWDEA.

Ms. Desai reviewed the Comparative Income Statement for the year-to-date ending February 28, 2011. She reported that under Source of Supplies the Utilities Line Item contains the reduction of 45% as she previously explained.

Ms. Desai reported that at the Board's request she included the Comparative Statement of Net Assets for February 28, 2011. She commented that she will include the statement in the financial statements each month. Ms. Desai offered to answer the Board's questions and there were none. She reported that she also included for the Board's information the Notes to the Financial Statements, Fiscal Year Ended June 30, 2010, which outlines the District's PERS and OPEB liabilities. Ms. Desai explained that the District is not required to record the entire PERS and OPEB liability on the balance sheet; only the current year's liability. If the current year's liability is paid in full, there is no liability reported on the balance sheet.

Ms. Desai reviewed the Budget vs. Actual Report for the eight-month period ending February 28, 2011. She explained that she decided to return to the original format for the report as it presents a better comprehensive coverage of what the costs are. Ms. Desai commented that there are no major changes to report and offered to answer the Board's questions.

Ms. Desai reviewed the Summary of Disbursements for the month of February 2011, which staff will ask the Board to receive and file at the Board meeting on Thursday.

Director Lizotte left at 11:07 a.m.

## INFORMATION ITEMS

### 2009 COPS Update

Mr. Cain reported that the Board members were provided with an update on the 2009 COPS Water Reliability Projects. He offered to answer any questions and there were none.

ADJOURNMENT

THEREAFTER, UPON A MOTION DULY MADE AND SECONDED, THE MEETING WAS ADJOURNED AT 11:10 A.M.

Respectfully submitted,

Frani Bailey  
Recording Secretary