

# **RAND COMMUNITIES WATER DISTRICT**

## ***Award Winning Water Right Down The 'Proverbial' Drain***

### **PURPOSE OF INQUIRY:**

A citizen's Complaint forwarded to the 2018-2019 Kern County Grand Jury (Grand Jury) from the District Attorney's office, and a recent article published by a local newspaper, suggested urgent issues within the Rand Communities Water District (RCWD) that warranted a closer investigation. Additionally, the Grand Jury received complaints, both verbal and written, from residents of Randsburg, Red Mountain and Johannesburg alleging cronyism, nepotism, inept business practices and policies throughout the RCWD.

Under the provisions of California Penal Code §933.5, the Grand Jury Special Districts Committee (Committee) reviewed the RCWD. The RCWD was last reviewed by the Grand Jury in 2013.

### **PROCESS:**

The Kern County Grand Jury's Special Districts Committee (Committee) visited the town of Randsburg on three separate occasions during its investigation of the RCWD. The Committee interviewed residents, business owners, CPA's, auditors, Board Members and employees (current and past), a representative of the State Water Resources Control Board Division of Drinking Water, and members of the Kern County Fire Department, (Station 75). The Committee briefly attended an evening District Board Meeting that was so contentious, two Sheriff's deputies were positioned outside the boardroom to assure the safety of the attendees.

The Committee reviewed newspaper articles, past Grand Jury Reports, on-line materials, Board of Director's Minutes and all financial records available to the Committee.

### **BACKGROUND AND FACTS:**

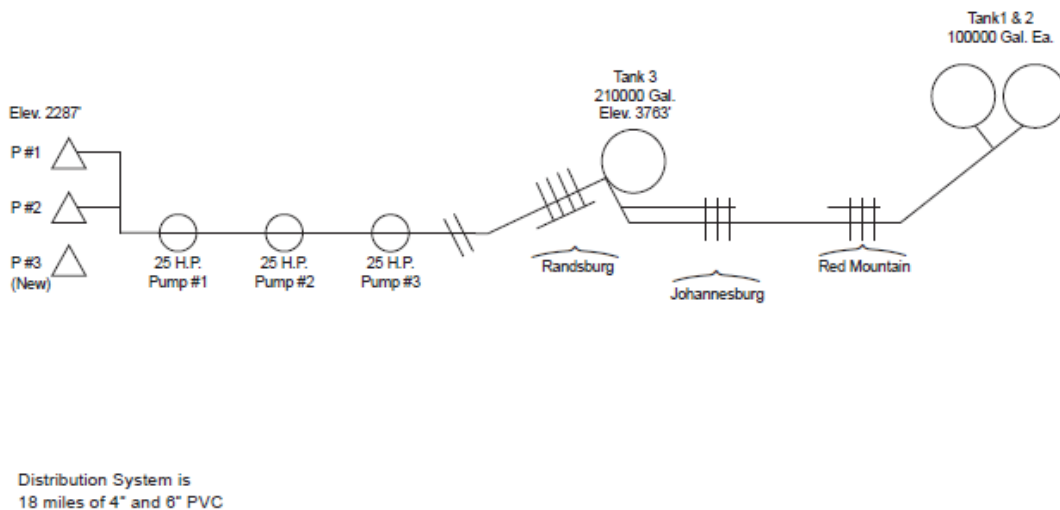
The Rand Communities Water District is located in Randsburg, CA, nestled in the foothills of the Rand Mountains, northeast of the city of Tehachapi. According to business owners, the local economy depends mainly on holiday visitors to the area, gold mining, motorcycle runs, antiques and hiking.

- A. The RCWD was established in 1969, and supplies domestic water to 250 water hookups, serving both residential and commercial properties in Randsburg, Red Mountain and Johannesburg.
- B. The RCWD is a communities public water system as defined in the California Health and Safety Code §116275. The office is located at 501 Comstock Avenue, Johannesburg, CA 93528.

- C. The “Best Tasting Water in California” award went to Rand Communities Water District at the California Rural Water Association (CRWA)’s 2017 Expo held in South Lake Tahoe, April 24 to April 27, 2017.
- D. RCWD has three wells called Prather’s 1, 2 and 3 located approximately thirteen miles west of Randsburg. (See below)



- E. Three booster pumping stations are located along the thirteen mile section of the pipeline, lifting the pumped water a total of 2,000 feet from Prather 2 to the storage tank in Randsburg. (See Grand Jury schematic below)



- F. The RCWD employs a General Manager, Office Manager, part-time Meter Reader and a Distribution Operator. The current Interim General Manager holds a D2 State Classification that certifies him to oversee a water district with less than 1,000 hookups.
- G. The RCWD Board of Directors consists of five members who are elected for a four-year staggered term. Five candidates were on the ballot for the four Board positions which expired on November 6<sup>th</sup>, 2018. To be a Board member, one must reside in the District and be registered to vote.
- H. Each Director is compensated \$40 per Board Meeting with an allowable maximum of two meetings (\$80) per month. Special or additional Board Meetings are not to be further compensated.

## FINDINGS:

### RCWD Infrastructure:

- F1. A Leak Detection Survey was performed by the CRWA from April 26-29, 2018. The Survey encompassed 13 miles of pipelines, 41 hydrants, and 250 water meters. The results of the Survey documented water losses in excess of 43% due to poor maintenance practices and an aging system.
- The lifting expense for pumping water from Prather 2 to the RCWD storage tank in 2017-2018 was \$56,336. This 43% loss equated to \$24,224 in lost revenue.

- F2. The Committee's inspection of the RCWD found the system's infrastructure to be in serious need of repair:
- Lack of established preventative maintenance procedures as provided in the manufacturers manuals
  - Safety grating was missing from a metering vault and the booster pump stations
  - Unsupported vent piping at the booster stations
  - Inoperative radio frequency automation system
  - Leaking fire hydrants and defective residential water meters
- F3. All pumping stations are manually operated daily. In case of a break or leak, the General Manager or Distribution Operator must physically go to the field to address the problem, potentially causing a large amount of water loss.
- F4. A pipeline failure on December 5<sup>th</sup>, 2017, resulted in a loss of 130,000 gallons of water from the storage tank, leaving the District without water for eighteen hours. This resulted in Station 75, having to rely on a 3,000 gallon water tanker from Inyokern in the event of a fire.
- F5. The State Board issued updated Compliance Order No. 03-19-15R-004 on March 9, 2015 for the ongoing arsenic Maximum Containment Level (MCL) violation for Prather's 1 & 2. Per the Compliance Order, the District was required to be in compliance by March 9, 2018 and failed to meet this compliance date. District will need to explain their failure to meet this deadline and to ask the State Board for an extension to continue to operate.
- F6. Prather 1 is in standby mode due to the high level of arsenic in the water (0.021mg/liter) exceeding the (MCL) of 0.010 mg/liter.
- F7. Prather 2 is presently being used to supply water to the RCWD. Information provided by the State Water Resources Control Board (SWRCB) indicates the arsenic level in Prather 2 fails to consistently meet the 0.010 mg/liter requirement. Based on this reading, RCWD must test the arsenic level and turn in a quarterly report to the SWRCB.
- F8. SWRCB memorandum, dated March 9, 2018 entitled '*Rand Communities Water District (Water System No. 1510016) Compliance Order for Violation of Arsenic MCL*', which reads in part, "*The District shall develop and implement a plan to resolve the arsenic MCL violation and ensure that the water served to consumers meet all drinking water standards*".
- F9. A State Grant was written, under Proposition 84, to provide RCWD with funding for the Arsenic Mitigation Project in two phases:
- a. Phase 1 was written for \$550,000 to cover planning and drilling of a new water well, Prather 3. The new well was completed on December 22, 2014 at a cost of \$498,724.

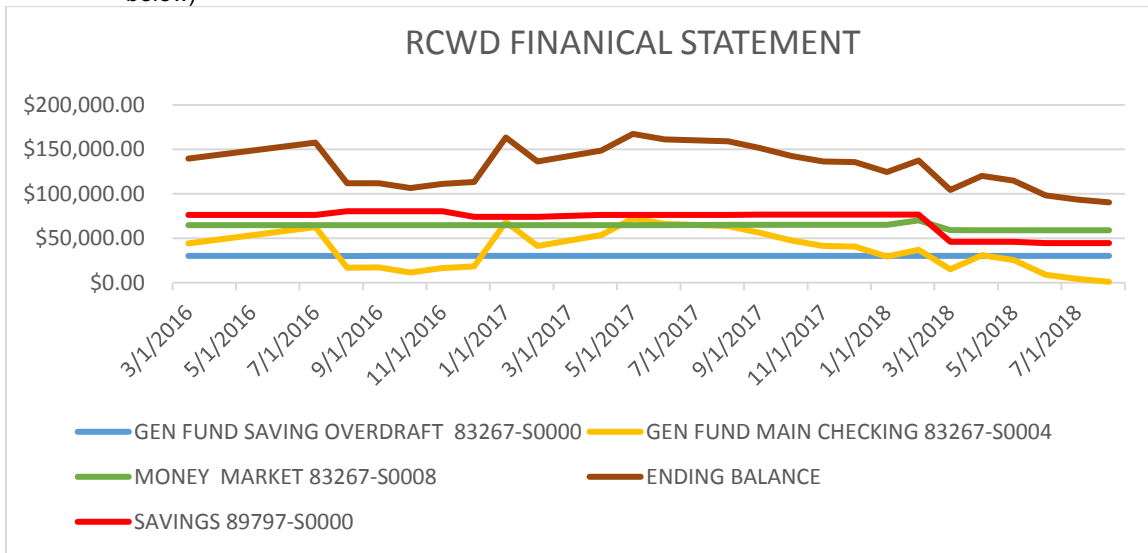
- b. Phase 2 is budgeted for \$3,218,000 to cover the following:
- Final completion of Prather 3
  - Fabrication and installation of a blending station
  - Retrofitting and automation of the existing water system
  - Replacement of sections of the defective pipeline

F10. The SWRCB is holding the \$3.2 million which is not being utilized because no one at the RCWD has followed up on the available Grant.

**Operations**

F11. Finances and Accounting:

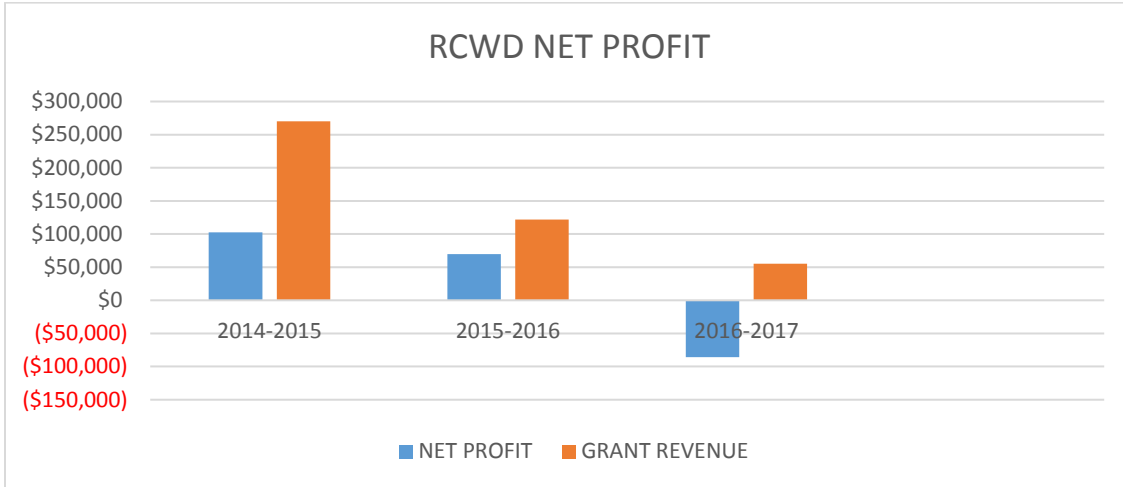
- a. Bank statements from 2016-2018 show a continual decline in revenue. (See below)



b. RCWD was unable to supply a 2017-2018 budget showing income and expenditures. The 2017-2018 Profit and Loss Statements were provided to the Committee from the Kern County Auditor’s office.

c. Kern County supports RCWD with an annual payment of \$45,403 in property taxes.

d. The District has relied on Grants to stay solvent. (see below)



- e. The CPA failed to receive financial data in a timely manner to comply with government mandated reporting.
- f. Incorrect billing and the absence of an acceptable accounting system contributed to the inaccuracy of records.
- g. Check register data was maintained on a monthly basis instead of a running total.
- h. Personal vehicles are being used for work purposes. Undocumented mileage is being reimbursed.
- i. Bulk water sales connections, located outside the office, lack metering facilities and camera surveillance to support correct usage and payment.
- j. On November 2, 2018, \$7,602.82 in RCWD checks, which had been missing for up to one year were cashed by a single source.

F12. Practices under the previous Office Manager were lacking in standard business and accounting procedures:

- Changed the computer password, locked all file cabinets, and took the keys home
  - This prevented the new Office Manager and the Board of Director's Secretary from performing audits, gathering information for the Grand Jury and blocked access to the District's finances
- Gas expenses for employees were undocumented and reimbursed in cash
- Comparisons between cancelled checks and computer data showed a number of missing checks (52) and sequencing errors within a two year period (2016-2018) preventing reconciliation

F13. The written findings of the Secretary of the Board recorded in the September 12<sup>th</sup>, 2018 Board meeting minutes as follows:

- Cash received was not documented
  - No cash log
  - No recordings of cash received or deposited

- No documentation for disbursed cash
  - Records were sparse, improperly filed and not available for quick access
  - Numerous amounts of computer financial documents were duplicated
  - Personnel financial information was left out in plain sight for the public to see
  - Discovered a large amount of unfiled documents, unopened mail and un-mailed documents
  - Documents between 2016 and 2018 had been removed
  - Scanned documents exist but cannot be matched with check registers and invoices
- F14. “Hand shake deals” for outside water sales were routinely entered into by the prior General Manager:
- No record exists for tracking revenue or water sold
  - Only the Board President is authorized to sign contracts
- F15. The District lacks detailed record keeping for tracking the production and sale of water. This is necessary to comply with the State of California’s Electronic Annual Report (EAR). The data for the past year had been estimated in order to meet the State’s deadline.
- F16. In March of 2018, the RCWD commissioned a water consultant to conduct a review of the District’s overall operational efficiency. The Committee interviewed the Consultant, who said he “found the District to be a circus”. After investing a couple of weeks he quit, saying, “I wanted NO part of it”. He did not charge for his time.
- F17. RCWD is responsible for the maintenance and upkeep of Johannesburg Park and has a line item #15400 in the budget but no expenses are being recorded.
- F18. A company truck (2007 Ford, License #5YSS186) is registered to RCWD and co-registered to the past General Manager.
- F19. Pre-employment drug testing is required. However, no random drug testing requirement exists.
- F20. Job descriptions are outdated.
- F21. Only a partial supply and parts inventory list exists, slowing major repairs.
- F22. No plot map exists indicating each water meter location with corresponding serial number.

- F23. Many residents of the communities have expressed concern over the Districts billing practices:
- The residents questioned the accuracy of the meter readings, resulting in high water bills
  - The old billing system is not customer friendly and hard to understand

## **Board of Directors**

- F24. Board Members were unaware of the \$3.2 million Grant's existence to renovate and automate the RCWD system.
- F25. Board Members displayed a lack of knowledge about RCWD operations and the financial requirements necessary to conduct business on a day to day basis.
- F26. During the September 12, 2018 RCWD Board Meeting, the Committee witnessed hostilities between Board Members and the general public which escalated into chaotic confrontations and threats.
- F27. A current Board Member proudly informed the Committee, "I don't have a meter and never receive a water bill because I take water from friends and neighbors". The absence of this Board Member's name and address in the customer billing records support this.
- F28. The Board granted performance bonuses, arbitrary salary increases, and offered benefit packages to employees without reviewing the District's financial records:
- The 2017-2018 Profit and Loss Statement reported a total labor expenditure of \$160,785 or 68% of the reported \$301,506 expense
- F29. Board Members are not currently bonded as required by the Bylaws.
- F30. Newly appointed and elected Board Members assume duties and do not receive any formal training or orientation for RCWD operations, finances, Bylaws, Brown Act and Roberts Rules of Order.
- F31. Board Members were conducting RCWD business outside of the public Board Meeting, in violation of the Brown Act.
- F32. RCWD lacks transparency and does not have a website available to the general public.



## RECOMMENDATIONS:

- R1. The Kern County Auditor should perform a detailed audit into questionable accounting practices within the RCWD. (Findings F11, F12, F13, F14, F17, F28)
- R2. RCWD should develop a cohesive working relationship within 60 days following the publication of this report. Conduct a Team Building Training Session with the Board of Directors, General Manager and Office Manager using CRWA Training resources. (Findings F25, F26, F30, F31)
- R3. RCWD should contract with a qualified outside project manager to oversee Phase 2 of the Arsenic Mitigation Project to maintain cost control and to oversee the construction of the new facilities ensuring completion in a timely manner. The Project Manager should coordinate the construction phase of the project with the General Manager to avoid unnecessary shutdowns of the water system. (Findings F1, F2, F3, F4, F5, F6, F7, F8, F9, F10)
- R4. RCWD should create an orientation packet prior to the Orientation for new Board Members. Materials should include the handling of invoices, billing procedures, rules related to the Brown Act, usage of Robert's Rules of Order, copy of the Bylaws, handling of resident complaints, banking procedures, and an understanding of the annual budget. (Finding F30)
- R5. RCWD Bylaws should be amended to require all Board Members live within the District, be a registered voter, and a RCWD customer. (Finding F27)
- R6. Board Members should be bonded as per the Bylaws. (Finding F29)
- R7. The General Manager should require at least (1) unannounced drug test annually to all operation employees. (Finding F19)
- R8. The General Manager should prepare updated job descriptions with qualifications and salary ranges. (Finding F20)
- R9. Employees should use company vehicles when available to minimize the use of personal vehicles and subsequent mileage reimbursement. (Finding F11)
- R10. Employees should be required to submit a receipt for fuel reimbursements, and be paid by check. If petty cash is needed, accurate records should be kept. (Finding F12)
- R11. RCWD should be self-sufficient and not dependent upon grants to supplement the operating budget. (Finding F11d)

- R12. RCWD should create an accurate inventory record for repair supplies i.e., clamps, pipe fittings, isolation valves, meter parts, etc. (Finding F21)
- R13. RCWD should maintain records for all metered water produced and sold, to comply with the State of California's Electronic Annual Report database. (Findings F1, F15)
- R14. RCWD should stop the past practice of conducting "hand shake deals" for outside water sales. Outside sales should be entered into with a written contract. (Finding F14)
- R15. The bulk water hydrants should have hook-ups with meters that have the capability to incorporate with the Phase 2 automation system:
- This automation system should include a keypad system linked to the mainframe that logs the amount of water used and provides automatic billing information, eliminating the handling of cash (Finding F11i)
- R16. RCWD should develop and implement a website, providing transparency for the District. Information should include Board of Director minutes and agendas, organization chart with salaries, and yearly profit and loss summaries. (Finding F32)
- R17. RCWD should continue to explore adequate billing systems. (Finding F22, F23)
- R18. The past General Manager's name should be removed from the DMV registration of the RCWD replacement vehicle. (Finding F18)
- R19. Board Members of the District should abide by the Bylaws and not personally profit from RCWD contracts. (Finding F11j)
- R20. In light of the severity of this report, if the above recommendations are not met within 120 days of the release of this report, the 2018-2019 Kern County Grand Jury recommends that the RCWD be placed in receivership through the State Water Resources Control Board. (All Findings)

## **COMMENTS:**

The Grand Jury would like to thank the residents who provided information for this report.

The Grand Jury thanks the RCWD and the Randsburg General Store for providing meeting rooms for the Committee to hold their interviews.

## **NOTES:**

- The Rand Communities Water District should post a copy of this report where it will be available for public review
- Persons wishing to receive an email notification of newly released reports may sign up at: [www.kerncounty.com/grandjury](http://www.kerncounty.com/grandjury)
- Present and past Kern County Grand Jury Final Reports and Responses can be accessed on the Kern County Grand Jury website: [www.kerncounty.com/grandjury](http://www.kerncounty.com/grandjury)

## **RESPONSE REQUIRED WITHIN 90 DAYS**

**PRESIDING JUDGE  
KERN COUNTY SUPERIOR COURT  
1415 TRUXTUN AVENUE, SUITE 212  
BAKERSFIELD, CA 93301**

**CC: FOREPERSON  
KERN COUNTY GRAND JURY  
1415 TRUXTUN AVENUE, SUITE 600  
BAKERSFIELD, CA 93301**