

Corinne W. Wiley, President  
Catharine Benediktsson, Vice President

V. William Brady, Secretary  
Casey Kawamoto, Director  
Claire McAuliffe, Director

**Sanitary District No. 5 of Marin County  
Finance & Fiscal Oversight Committee Meeting  
at Sanitary District No. 5 of Marin County Meeting Room  
2001 Paradise Drive, Tiburon, California  
Wednesday, February 18, 2009 1:00 p.m.**

**CALL TO ORDER** at 1:15 p.m.

- I. ROLL CALL:**
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|--------------------|--|
| Directors present: | Catharine Benediktsson, Vice President<br>Claire McAuliffe, Director         |
| Staff present:     | Robert L. Lynch, District Manager<br>Samantha Miller, Office/Finance Manager |
| Others present:    | David Perotti, Perotti & Carrade CPAs<br>Leslie LaTorre                      |

**II. PUBLIC COMMENTS:** None

**III. NEW BUSINESS:**

**a. David Perotti's Internal Audit – Update**

The Committee reviewed with Mr. Perotti the results of Phase 1 of his internal audit and the Board's decision to accept his Phase 1 recommendations for zone allocation percentages.

District staff recently located the "missing" original agreement document that had set Belvedere's capital allocation rate at 30.66%, along with other documents setting the rates before that. These documents show that Belvedere's capital allocation percentage was set at 36.35% in 1960, 33.2% in 1981, 30.7% in 1999, and 30.66% in 2003. Mgr. Miller explained to the Committee that these documents demonstrate that, historically, the capital allocation percentage for Belvedere has been based on the number of EDUs in Belvedere as a percentage of the total number of EDUs in the entire District.

The Committee discussed these findings, along with the letter dated February 3, 2009 from Mr. Paul Garbarini requesting the Board to revisit last month's account sharing decision. The Committee maintained that the Board's decision on January 13, 2009 to

accept Mr. Perotti's Phase 1 Report and recommendations for allocation percentages should not be revisited by the Board, and the Committee disputed Mr. Garbarini's claim that the action taken at the January 13, 2009 Regular Board Meeting was a de facto rate increase for the Belvedere zone. In order to change any sewer service charge rates, the District has to engage in a 218 process. The action taken by the Board on January 13, 2009 merely set the allocation percentages the District uses in its accounting system, using the most accurate and fair basis available.

The Committee agreed that, although Belvedere's capital allocation percentage has been based on EDUs in the past, the most fair and equitable manner to allocate these costs today is to use sewage flow as the basis. Using flowage data for each zone, which is readily available today, is a more accurate way to distribute costs than using EDUs. Furthermore, operating costs are being charged on the basis of flowage, and capital expenditures should use the same basis. It would only make sense that you pay the same percentage of a cost to *replace* something as you pay to *use* it.

The Committee moved on to discuss Mr. Perotti's ideas and recommendations, thus far, for Phase 2 of his internal audit. Mr. Perotti explained that he plans to propose a revised set of financial statements to replace the current statements used for the District's Monthly Financial Reports. This could involve the purchase of additional financial reporting software, which Mgr. Miller would have to use every month to create specialized financial reports that are not available using QuickBooks.

Mr. Perotti also discussed the idea of breaking down the District's annual budget by month every year.

Mr. Perotti presented his ideas to the Committee about updating the employees' timesheets and the possibility of allocating salary expenses to the different zones based on the information recorded on the timesheets. Mr. Perotti will continue to investigate different options available through Paychex, the District's payroll service provider.

The Committee agreed that some of Mr. Perotti's suggestions look like they could be beneficial improvements to the District's current accounting system. However, the Committee also expressed their concern that Mr. Perotti's proposals might result in added work that appears to be more complex and time-consuming for Mgr. Miller, who is already stretched very thin for time. The Committee stressed to Mr. Perotti the Board's desire to simplify processes for the Finance Manager, while maintaining an appropriate level of detail and accuracy.

Mr. Perotti will continue to work with Mgr. Lynch, Mgr. Miller, and Mrs. LaTorre on his Phase 2 recommendations, which will ultimately be presented to the Board for

consideration of approval, at which point the Board will need to weigh the benefits and costs of simplification versus heightened accuracy.

**IV. ADJOURNMENT** at 2:28 p.m.

Recorded by Samantha Miller