

Received from Debbie Peterson Attachment A.

REORGANIZATION PER BUDGET 7.2.14
FISCAL YEAR HISTORY OF LEGAL AND DISTRICT ENGINEER/ADMIN FEES
FISCAL YEAR END JUNE 30TH
PAST 6 YEARS
TOTAL 2010-2015

SLOCSO LEGAL FEES	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
ADAMSKI MOROSKI WADDEN CUMBERLAND									27,516			27,516
ANASTASIA MYLONAS							1,912					1,912
ANDRE MORRIS & BUTTERY									19,929			19,929
DC FROST ASSOCIATES						3,418						3,418
DOWNEY BRAND ATTORNEYS								26,723	229,437			256,161
JUST RESOLUTIONS							4,965					4,965
LAW OFFICES OF WOOSLEY & PORTER									15,000			15,000
LIEBERT CASSIDY WHITMORE							14,040					14,040
SCHINDLER LAW GROUP								6,201	5,059			11,259
SHIPSEY & SEITZ	33,684	35,586	36,836	57,775	95,714	128,832	168,319	196,396	106,231			859,374
WAAG & CO						3,981	6,663					10,644
TOTAL LEGAL FEES	33,684	35,586	36,836	57,775	95,714	136,231	195,898	229,321	403,173	*	248,000	1,722,046
											*	1,462,451

* These figures are not yet out, so budget totals were used.

between them
4 was 52m

ADMIN/ENGINEERING												
ADMIN/ENGINEERING	289,050	490,559	76,822	73,118	398,120	360,189	478,985	511,093	58,068	81,447	190,000	3,007,452
CAPITAL		36,371	409,823	542,574	340,618	467,291	350,579	125,410	355,749	76,708	150,000	2,855,121
TOTAL	289,050	526,929	486,645	615,692	738,738	827,480	829,564	636,504	413,816	158,155	340,000	5,862,573
TOTAL LEGAL & ADMIN	322,734	562,515	523,481	673,467	834,452	963,711	1,025,462	865,824	816,989	407,983	588,000	7,584,619
INCOME FOR EXPANSION FUND 20	455,018	498,331	299,456	233,746	86,006	67,451	104,568	44,550	15,202	83,024	85,000	1,972,352
PAYROLL TAKEN FROM INVESTMENT ACC	400,000	550,000	500,000	550,000	450,000	650,000	610,000	600,000	660,000	165,000	0	5,135,000
TOTAL	855,018	1,048,331	799,456	783,746	536,006	717,451	714,568	644,550	675,202	248,024	85,000	7,107,352

SLO County Detail Report Fiscal Year Ended 6/30/15
Note that it has now been brought up to date.

ZFIR_FUNDEDETAIL - Fund Detail Report
 Report ZFIR_FUND_DETAIL ALV_200710
 Run Date: 01/13/2015 Time: 09:13:15
 User LCORR
 System PRD/300

Total Records 0000000003

Year	Fund	Account	Period	Entered	Pstng Date	Text	Debit Amount	Credit	Net Amount	Cum Amt
2014	4101000000	1550025	12		6/30/2014	Previous Balance	6,019,331.00	0.00	6,019,331.00	6,019,331.00
*					6/30/2014				6,019,331.00	
**					6/30/2014				6,019,331.00	
2015	4101000000	1550025	5	12/3/2014	11/26/2014	To reduce LAIF Acct balance at 07/01/2013	0.00	3,181,037.77-	3,181,037.77-	2,838,293.23
2015	4101000000	1550025	5	12/3/2014	11/26/2014	For July '13-Mar '14 LAIF & Rabo-bank activity	0.00	434,736.83-	434,736.83-	2,403,556.40
*					11/26/2014				3,615,774.60-	
**					11/26/2014				3,615,774.60-	
***									2,403,556.40	

INITIAL SELECTIONS

Fiscal Year 2015
 Beginning Period 001
 Ending Period 012
 Fund(s) Single value 4101000000
 Account(s) Single value 1550025
 Report Layout LCFUNDEDETAIL

A

01/13/2015 SLO County Detail Report Fiscal Year Ended 6/30/10
No entries. Balance is the same at 6/30/10 as Fiscal Year Ended 2014.

Dynamic List Display

01/13/2015 ZFIR_FUNDEDETAIL - Fund Detail Report

Note the \$1.2m discrepancy between this statement and LAIF for the same date, same account.

ZFIR_FUNDEDETAIL - Fund Detail Report
Report ZPFIR_FUND_DETAIL_ALV_200710
Run Date: 01/13/2015 Time: 09:08:58
User LCORR
System PRD/300

Total Records 0000000001

Year	Fund	DT	Account	Period	Entered	Pstng Date	Text	Debit Amount	Cr	Net Amount
2010	4101000000		1550025	12		6/30/2010	Previous Balance	6,019,331.00	0.00	6,019,331.00
*						6/30/2010				6,019,331.00
**						6/30/2010				6,019,331.00
***										6,019,331.00

INITIAL SELECTIONS

Fiscal Year 2011
Beginning Period 001
Ending Period 012
Fund(s) Single value 4101000000
Account(s) Single value 1550025
Report Layout LCFUNDEDETAIL

Statement of Account Activity in Capital Expansion Fund showing \$50,000 withdrawal. Note the \$1.2m discrepancy between this statement and the County's for the same date, same account.

Local Agency Investment Fund
P.O. Box 942809
Sacramento, CA 94209-0001
(916) 653-3001

SOUTH SAN LUIS OBISPO COUNTY
SANITATION DISTRICT
BUSINESS OFFICE
P. O. BOX 339
OCEANO, CA 93445

www.treasurer.ca.gov/pmia

-laif

October 06, 2010

PMIA Average Monthly Yields

Account Number [REDACTED]

Transactions

Tran Type Definitions

June 2010 Statement

Effective Date	Transaction Date	Tran Type	Confirm Number	Authorized Caller	Amount
6/10/2010	6/9/2010	RW	1274395	JOHN L. WALLACE	-50,000.00

Account Summary

Total Deposit:	0.00	Beginning Balance:	4,867,492.70
Total Withdrawal:	-50,000.00	Ending Balance:	4,817,492.70

Special District Risk
Management Authority

Maximizing Protection.
Minimizing Risk.

1112 I Street, Suite 300
Sacramento, California 95814-2865
T 916.231.4141
T 800.537.7790
F 916.231.4111
www.sdrma.org

Attachment B



March 21, 2011

John L. Wallace
Wallace Group
612 Clarion Court
San Luis Obispo, CA 93401

Re: Our Claim No: EP 4754
Claimant: Devina Douglas
Date of Loss: July 9, 2010

Dear Mr. Wallace:

The South San Luis Obispo County Sanitary District is a self-insured public entity and a member of Special District Risk Management Authority (SDRMA) a Joint Powers Authority (JPA).

I am writing in reference to the summons and complaint case number CV110124 filed in San Luis Obispo Superior Court by Jeffrey D. Stulberg, Esq. on behalf of Devina Douglas on February 22, 2011. The complaint names John Wallace and the Wallace Group as defendants. At this time I am advising you that a coverage question is pending relative to whether or not the Liability Coverage Agreement issued to the South San Luis Obispo County Sanitary District would provide coverage for you and the Wallace Group for this occurrence.

The Liability Coverage Agreement may not provide coverage for you or the Wallace Group due to the following exclusion:

"VI. Exclusions

FF. To any claim for Personal Injury, Property Damage, Public Officials Errors and Omissions, Employee Benefits, Acts, Errors or Omissions, or Wrongful Employment Practices arising out of the acts or omissions of any consultant or contractor who is not a fulltime employee of the **Covered Party**, but who is appointed by the **Covered Party** to act as its official, agent, or other representative. "

Additionally, we are also investigating the issue of primary coverage considering the following condition in our Memorandum of Coverage cited in the GENERAL TERMS AND CONDITIONS APPLICABLE TO ALL PROGRAMS:

"Other Insurance

The coverages provided pursuant to this Memorandum shall apply only in excess of any insurance available to any Covered Party. In addition, except with respect to the policies referred to herein, the coverages provided pursuant to this Memorandum shall apply only in excess of coverage or benefits provided by self-insurance arrangements, pools, self-insurance trusts, captive insurance companies, retention groups, reciprocal exchanges, or any other plan or agreement of risk transfer or assumption."



SDRMA is willing to proceed with the investigation and/or defense of this claim however we will do so only on the condition that our actions will not prejudice any rights or defenses we currently have under the Liability Coverage Agreement, whether such rights have been specifically referred to in this letter.

By expressly reserving our right to deny coverage under the Liability Coverage Agreement at a later date, none of our actions by investigating and/or defending this claim shall be construed in any way as waiving or creating an estoppel of our rights under the Liability Coverage Agreement; nor shall they be deemed in any way to be an admission of liability or coverage under the Liability Coverage Agreement.

SDRMA expressly reserves the right to institute, at any time after receipt of this letter, an action to have the rights of the parties hereto determined.

Should you have questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Barbara Tyler".

Barbara Tyler, CCLA
Claims/Loss Prevention Manager

VI. Exclusions, continued

- (4) Internet Backbone Provider, meaning any person or entity that routes or provides channels for packets that transport data from point to point on the Internet; or
 - (5) Entity or individual that derives ninety percent or more of gross revenue or conducts or executes ninety percent or more of business transactions on or through the Internet; or
 - (6) Entity or individual that is in the business of providing electronic mail services; or
 - (7) Entity or individual that is in the business of developing, supplying and/or installing encryption software for use on the Internet.
- "Internet" as utilized in this exclusion shall mean the international computer network of interoperable packet switched data networks, also known as the worldwide web or worldwide network of computers.

DD. CEQA:

To liability imposed upon a **Covered Party** (or which is reputed to a **Covered Party**) under the "California Environmental Quality Act" and any law amendatory thereof.

EE. Prior Manifestation:

To a **Claim or Suit** seeking damages consisting of, or arising from **Personal Injury or Property Damage** that any **Covered Party** knew or should have known existed before the commencement of this **Coverage Period**, or that were manifested prior to this **Coverage Period**. **Personal Injury or Property Damage** will be deemed to have been manifested as of the earliest date by which any damage or injury occurred, irrespective of whether any **Covered Party** was aware of the existence of any such damage or injury, and irrespective of whether such damage or injury may have been continuous or progressive or may have been due to repeated exposure to substantially the same harmful conditions or may have become progressively worse during this **Coverage Period**.

- FF. To any claim for **Personal Injury, Property Damage, Public Officials Errors and Omissions, Employee Benefits, Acts, Errors or Omissions, or Wrongful Employment Practices** arising out of the acts or omissions of any consultant or contractor who is not a fulltime employee of the **Covered Party**, but who is appointed by the **Covered Party** to act as its official, agent, or other representative.

VII. Additional Exclusion
Applicable to Coverage A,
Personal Injury or Property
Damage Due to an
Occurrence

Coverage A, **Personal Injury or Property Damage** due to an **Occurrence**, does not apply to:

- A. Any **Personal Injury or Property Damage** due to an **Auto Accident**, to any **Public Officials and Employees Errors and Omissions** due to a **Wrongful Act**, to any **Employee Benefits Act, Error or Omission** or to any **Wrongful Employment Practice** as defined in Coverages B, C, D, and E respectively in this Liability Coverage Agreement.

VIII. Additional Exclusion
Applicable to Coverage B,
Personal Injury or Property
Damage Due to an Auto
Accident

Coverage B, **Personal Injury or Property Damage** due to an **Auto Accident**, does not apply to:

- A. Any **Personal Injury or Property Damage** due to an **Occurrence**, to any **Public Officials and Employees Errors and Omissions** due to a **Wrongful Act**, to any **Employee Benefits Act, Error or Omission** or **Wrongful Employment Practices** as defined in Coverages A, C, D, and E

B

Memorandum of Coverages



Defense and Settlement Provisions, continued

Member disputes the recommended settlement, and provided that SDRMA does not exercise its option to unilaterally effectuate settlement, the Member may elect to undertake the further investigation and/or defense of the claim solely at its own expense, and pay such amounts of indemnity that exceed the amounts recommended by SDRMA up to the limits of risk financing afforded herein, and also pay the additional costs of investigation and/or defense cost incurred from the date such investigation and/or defense is undertaken by the Member.

Other Insurance

The coverages provided pursuant to this Memorandum shall apply only in excess of any insurance available to any Covered Party. In addition, except with respect to the policies referred to herein, the coverages provided pursuant to this Memorandum shall apply only in excess of coverage or benefits provided by self-insurance arrangements, pools, self-insurance trusts, captive insurance companies, retention groups, reciprocal exchanges, or any other plan or agreement of risk transfer or assumption.

Voluntary Payments

The Covered Party shall not, except at their own expense, voluntarily make any payment, assume any obligation, or incur any expense, other than for first aid, without the written consent of SDRMA.

Authorization Clause

By acceptance of this Memorandum, the Member agrees to act on behalf of its officers, employees and agents with respect to the giving and receiving of notice of claim, the payment of contributions and assessments, and the receiving of any return contributions that may become due under this Memorandum, and said officers, employees and agents agree that the named Member shall act on their behalf.

Acceptance

By acceptance of this Memorandum, the Member agrees that this Memorandum and Exhibits, together with the Sixth Amended and Restated Joint Powers Agreement and Bylaws and successor documents thereto, embodies all agreements existing between itself and SDRMA or any of its representatives or any insurers relating to this Memorandum or the coverages provided pursuant thereto.

Arbitration

As a condition precedent to any right of action against SDRMA, any dispute between the Member or any other Covered Party and SDRMA regarding or arising out of the risk financing afforded under the terms of this Memorandum or the coverages provided pursuant thereto, including its formation or validity, or any transaction under the Coverage Agreements issued to the Member by SDRMA, or any dispute or claim of any nature arising from or related in any way to the relationships governed by the Coverage Agreements issued to the Member by SDRMA, whether arising before or after termination shall be resolved by final and binding arbitration before a certified Arbitrator (affiliated with J.A.M.S., Two Embarcadero Center, Suite 1100, San Francisco, CA 94111), in accordance with its then existing applicable rules of practice and procedure and in accordance with the provisions of the California Code of Civil Procedure, Sections 1280, et seq. The arbitration shall be before a single neutral arbitrator selected jointly by SDRMA and the Member or other Covered Party. If SDRMA and the Covered Party do not agree on the identity of the Arbitrator, the Arbitrator will be appointed by J.A.M.S. Said arbitration shall take place in Sacramento, California unless the Member or other Covered Party and SDRMA jointly agree in writing to a different location. The Arbitrator shall have the power to determine all procedural rules for the holding of the Arbitration including but not limited to determining the arbitrability of claims, prehearing discovery, inspection of documents, examination of witnesses, etc. Both SDRMA and the Member or other Covered Party shall share equally in the cost of the Arbitration and shall otherwise bear their own costs and attorneys' fees in connection with such Arbitration. Judgment upon any arbitration award may be entered in any court having jurisdiction thereof.

Received from Debbie Peterson
Attachment C

Point	out	moss	levy	hartzheim	2012	review.
Net investment in capital assets					12,276,059	
Restricted for capital expansion					7,143,239	
Unrestricted					(4,590,890)	

From 2013

audited accounts. The amount restricted for capital expansion is very close to the amount I came up with based on figures from the accounts. What this means is that the unrestricted funds, which there are none, are short \$4,590,890.

Condensed RFP for Audit as presented to the Board in January 2013.

Scope of Work

Consultants will be expected to exercise professional discretion in determining which issues are most critical and should be recommended for follow up. These responsibilities will include the following.

Independent of the influence or involvement of the District Administrator and/or the Wallace Group:

- Complete an in-depth review of the District finances, including income & expenses within all accounts such as, but not limited to operations, maintenance, capital projects, reserve and revolving.
- Complete an in-depth review of the District operations and organization including personnel, equipment, purchases, repairs and maintenance costs.
- Develop, evaluate and compare operational alternatives for the Sanitation District, reviewing all services required to operate the district below the level of the board to determine if expenditures can be reduced and/or revenues can be increased.
- Review of policies, practices, procedures, equipment and Plant to rule out and/or prevent Fraud, Waste or Abuse.
- Evaluate current and a minimum of five (5) years of purchasing practices and procedures, including invoicing by District Administrator, engineering service providers, legal counsel and other service providers and contractors.
- Evaluate Plant, staff, operations and materials costs as compared to other wastewater Plants and advise as to working conditions, work load and typical costs.
- Suggest operational efficiencies, cost saving opportunities, best practices and appropriate controls.
- Advise on setting up systems, practices and procedures that provide financial and operational information that the Board needs for responsible oversight, accounting comparison of budgets versus expenses for the last five (5) fiscal years and relevant analysis of all District accounts for Board and management use.

Finding 2011-3:
Connection Fees

Auditor's Findings on connection fees.

Next Page: auditors' 'material weaknesses and significant deficiencies.'

CRITERIA:

Revenue received for connection fees should be restricted to capital expansion project purposes only.

CONDITION:

During our analysis of the general ledger, it was noted that connection fees received by the District were used for general operations. Connection fees are restricted for capital expansion project purposes only.

CAUSE:

District Oversight.

EFFECT:

Cash has been restricted for capital project expansion use.

RECOMMENDATION:

It is recommended that the District should not use funds restricted for capital expansion projects on general plant operations. In addition, the District should set up "due to/due from" accounts between funds for internal accounting records to better record the District's financial status.

DISTRICT'S RESPONSE:

The District has received differing interpretations of the borrowing of funds between accounts when necessary to meet on-going cash flow needs. But, the District will consider the recommendations and seek a final financial and legal opinion of this issue and act accordingly. The District does maintain separate account tracking and balances for each of its three funds at each of the facilities where the funds are deposited.

Revised by [signature]

FUTURE ACTIONS:

In the future, to minimize Expansion Fund (20) revenue being borrowed for general plant operations and Operating Fund (19) used for expansion capital activities, the District is exploring accounting to use just two funds: an Operating Fund (19) and a Capital Improvement Program Fund (XX). This would better separate general plant operations from capital projects and eliminate confusion between replacement and expansion categories.

C

have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. See Finding 2012-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. See Findings 2012-1 and 2012-2.

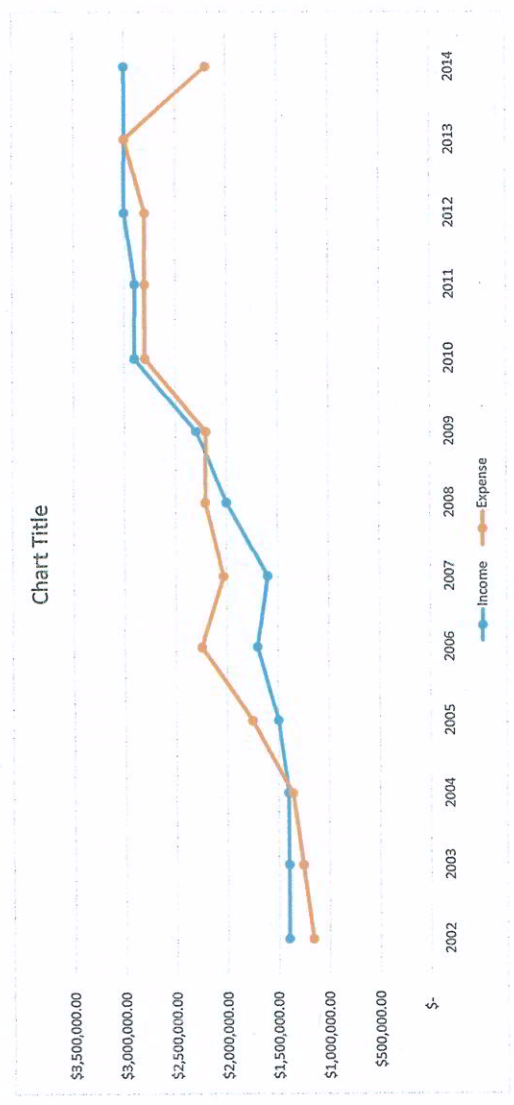
Received from Marc London

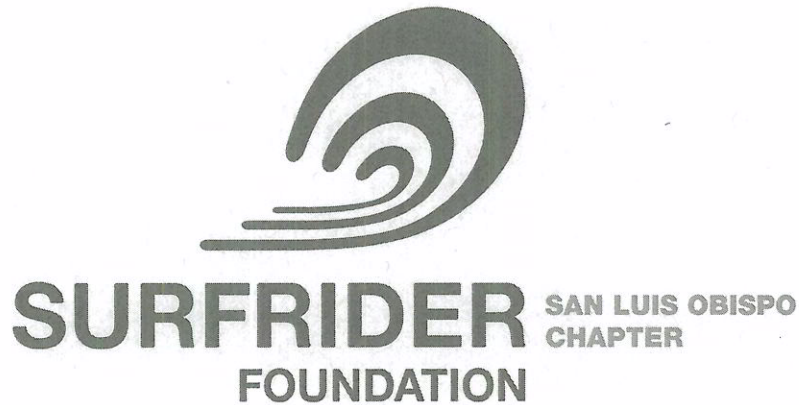
Attachment D

D

South San Luis Obispo County Sanitation District
Income vs Expenses

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income	\$ 1,400,000.00	\$ 1,400,000.00	\$ 1,400,000.00	\$ 1,500,000.00	\$ 1,700,000.00	\$ 1,600,000.00	\$ 2,000,000.00	\$ 2,300,000.00	\$ 2,900,000.00	\$ 2,900,000.00	\$ 3,000,000.00	\$ 3,000,000.00	\$ 3,000,000.00
Expense	\$ 1,160,000.00	\$ 1,260,000.00	\$ 1,360,000.00	\$ 1,750,000.00	\$ 2,250,000.00	\$ 2,030,000.00	\$ 2,210,000.00	\$ 2,200,000.00	\$ 2,800,000.00	\$ 2,800,000.00	\$ 2,800,000.00	\$ 3,000,000.00	\$ 2,200,000.00





To: South SLO County Sanitation District

DT: 01/20/15

Attn: Board of Directors

Jim Hill, Mayor of Arroyo Grande

John Shoals, Mayor of Grover Beach

Matthew Guerrero, Director of Oceano CSD

Re: Agenda Item 5C --Consideration to review long term expenditure history

Since 2011, Surfrider Foundation San Luis Obispo (the "chapter") has been asking South San Luis Obispo County Sanitation District (the "District") to increase their accountability in protecting environmental health. Evidence of our requests are shown in the public meeting records at the District, Oceano CSD, the City Councils of Grover Beach and Arroyo Grande, and in testimony to the Central Coast Regional Water Quality Control Board ("Regional WQ"). In early 2013, the chapter slowed its call for "an independent investigation into potential malfeasance by {then} Plant Administrator and Chief Engineer, the Wallace Group" when Mayor Debbie Peterson's questions regarding operational oversight were being internally investigated and some problems (operational and organizational) were resolved. However, since the independent investigation requested by our chapter never occurred, there remain many unanswered concerns also expressed by District employees, members of the Board of Directors, and District ratepayers which will only be resolved by further independent investigation of past operational practices accompanied by a thorough financial audit of District records.

Few ratepayers know how a Waste Water Treatment Plant (WWTP) such as the District's plant is regulated by Regional WQ, i.e. "The Honor System". The plant has specific standards set by Regional WQ that it must meet in the interest of safeguarding environmental health, to avoid fines, or to avoid the potential loss of the District's discharge permit. On a daily basis, the District is required to submit to Regional WQ the results of effluent samples which are taken by

District employees and sometimes tested in an on-site laboratory by District employees. The employees who perform these tests are certified technicians through the State of California, who in theory are obligated to protect their certifications by honestly reporting the District's daily water testing results. However, if discharge violations are not reported or if whistleblower reports of illegal reporting practices are not filed with Regional WQ, violations may never be known because WWTP's are not regularly audited by regulators. Thus, when the Honor System breaks down, the public may never know their environmental health has been at risk. The chapter believes the District's Board of Directors has access to legal testimony by whistleblowers (Supervisor Scott Mascolo, Water Quality Testing Technician Devina Douglas, and Plant Superintendent Jeff Appleton) to justify appropriate cause to investigate whether District Management placed the certifications of these technicians and our community's environmental health at risk because, simply stated, the Honor System broke down due to mismanagement of SSLOCSD's operations.

The function of a Waste Water Treatment Plant is to treat effluent to the standards of its Discharger Permit. For many years, SSLOCSD Management stated the value of maintaining the status quo was to "keep rates low". The SSLOCSD's major sewage spill of December 2010 and the testimony of Jeff Appleton at the State Water Board hearing regarding that spill, are direct indications that either the plant's Engineering was deficient or that Management was not requesting appropriate resources toward protecting the environment from a potential sewage spill. Since the WWTP was built in a flood plain, the potential for the flood which contributed to the spill of December 2010 was well documented and understood. However, questions asked by California State Water Board lawyers and our chapter at the September 7th, 2012 Regional WQ hearing regarding the spill remain valid: Was it mismanagement by the Plant Administrator and Chief Engineer that contributed to the eventual spill? Financial records show District surpluses and plentiful reserves in the years prior to the spill. Where did all the money go? If the money was invested in other necessary projects but this risk still remained, why wasn't District leadership actively pursuing new revenues? This is one of the reasons, among many other reasons raised by others on the Board of Directors, by employees, and by the public, for a thorough financial audit of District records going back as far as 2004.

In our chapter's recent public comments to the SSLOCSD Board of Directors, we have asked the board to agree to manage a suitable outcome by agreeing to further independent investigation of past operational practices accompanied by a thorough financial audit of District records. We also asked that records or documentation provided by the public could be submitted to investigators anonymously, thus allowing all available facts to be considered in the investigation and will open the "communication pipeline" with the community. In a thorough investigation, any illegitimate documents can be easily dismissed. Our hope for SSLOCSD's Board of Directors in 2015 is "the buck stops here", and we ask you to vote in support an independent investigation (Forensic / Operational audit) of the District's operational practices accompanied by a thorough financial audit of District records starting in 2004.

Signed,

Executive Committee of Surfrider Foundation San Luis Obispo:

Jennifer Jozwiak, Co-Chair

Niel Dilworth, Co-Chair

Brad Snook, Volunteer Coordinator

From the Desk of Julie Tacker
P.O. Box 6070
Los Osos, CA 93412
805.528.3569

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
1600 ALOHA PL / P.O. BOX 339
OCEANO, CA 93475

December 17, 2014

RE: SSLOCSD v California State Water Resources Control Board et.al. SLOCSC # 14 CV 0596

Dear Board of Directors,

At your December 3, 2014 you asked that the public submit questions as they relate to the district's case against the State in hopes of correcting public perception and any myths that may continue to surround the case.

These are my questions:

How much money has been spent defending the district from the ACL to date? At the March 20, 2013 meeting of your board, a staff report showed nearly \$700,000 had been spent at that time. Please provide an update for these expenses for the public.

How much was the settlement that fell through? Oceano CSD Board member Mary Lucey reported in public that the amount was \$300,000. If that amount is accurate, or anywhere close, why didn't the district settle at that time?

Lastly, the contract with attorney Melissa Thorne, Downey Brand, is from January 2012. In my opinion, the scope of work has changed -- yet the contract has not. Why is the contract hourly and not on a contingency basis? What is the budget for this outside counsel?

Thank you for your consideration.

A handwritten signature in cursive script that reads "Julie Tacker".

Julie Tacker

To the SSLOCSD Board of Directors and General Manager

re: SSLOCSD Investigatory Options

During the January 21 meeting of the SSLOCSD Board of Directors, there was much discussion of the nature of an investigation of past financial dealings of the SSLOCSD. I didn't spend as much time speaking on the subject as I should have because I suspected that there was already too much opinion being thrown out without adequate knowledge to support it and because the meeting was sufficiently long that my brain was already getting foggy. So here is a more organized summary of my thoughts on the subject.

I am not a CPA or financial expert but I wasn't convinced that a forensic audit will reveal all the information about past mismanagement or abuses that have occurred -- or even the most important of them. So, I did a little research on-line and asked a CPA I know about the subject. Audits are generally good for discovering bad bookkeeping procedures and attempts to steal by "cooking the books." They can reveal failure to record or mis-recording of income, expenses and transfers of funds. They can reveal mis-categorization of funds. It is entirely possible that such things have occurred and should be brought to light. Forensic audits are simply more detailed and exacting audits that focus in on areas where there is a possibility of fraud or other intentional theft by financial manipulation. They are done in such a manner as to provide legal proof of what has occurred.

However, there are other ways to defraud an organization or waste money through negligence or incompetence that may not be exposed by a forensic audit. Some examples would be engaging in unnecessary operations, over-paying for work done, and rigging RFPs to favor certain bidders for contract work for reasons unrelated to the scope of the work needed. There is also the possibility of failure to put work out for bid when it should have been done and awarding the work to a favored contractor when not the lowest bidder. A forensic audit might be able to detect the latter instances provided that adequate records of bidding processes were kept. Is this the case at SSLOCSD?

These examples of mismanagement (or corruption) are much more likely to occur when the District Manager is also a principal of a firm doing much of the contracted work for the district. I think they are more likely to have resulted in the larger portion of wasted funds than any intentional bookkeeping tricks. They may not even be illegal in some cases although they are certainly unethical and there may be some laws violated if done while using state or federal funds. I think that an "Operational Audit" is the term for what is needed to lay bare such details.

If the purpose of an inquiry into past practices is to lay grounds for legal actions to recover funds from Mr. Wallace as District Manager (or from his firm, Wallace and Associates, as the prime engineering contractor used by the SSLOCSD during the time he was District Manager), you will have to decide if the expense of doing either or both a forensic audit and an operational audit is likely to justify their costs. This expense may be more justifiable if the purpose of such an inquiry is also to just clear the air about how and why the SSLOCSD spent such exorbitant amounts of money while he was in charge.

However, I think that it is possible to find much of the information using already existing data and less expensive processes to get a better idea if the costs of the big audits are worthwhile. If nothing else, getting the records compiled and organized while doing this might save costs if you do hire more expensive professional auditors later. I am particularly concerned with the expense of the operational audit as the type of auditors involved typically charge very high rates and I would not be surprised if they approached six figures. Unless such an audit revealed clear evidence of actions that would make possible large-scale legal compensation from Mr. Wallace, I can't see spending an amount on it that could exceed 25% of the annual budget for the District. It is up to you to decide if such a price would be worth the benefit of proving to the public what exactly went wrong but my hope is that this could be done in a way that does not cost the SSLOCSD substantially more than it could reasonably expect to recover via a lawsuit. (Trustworthy legal advice on this subject is essential.)

Ron Holt

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