

February 20, 1992
ILR 92-B

Speaker H. Craig Moody, Chairman
Members of the Audit Subcommittee
State Capitol
Salt Lake City, Utah 84114

Subject: **Central Valley Water Reclamation Facility**

Dear Legislators:

At the direction of the Audit Subcommittee, we were asked to conduct a limited audit survey of issues raised about the operation of the Central Valley Water Reclamation Facility (CVWRF). We have completed the survey and report the results below.

In our opinion, the most significant problem facing the district at this time is a divided board. The board is divided over the direction and operation of the facility and over the performance of the general manager. Each area that we examined including travel, personnel administration, budgeting procedures, land acquisition, employee retirement, and others came back to this dispute. For example, we reviewed travel and found adequate policies and procedures, but a continuing argument has existed among board members and between some board members and the general manager over the appropriate level of travel for the district. These disagreements existed in most areas that we reviewed; and as a result, the district is in turmoil.

We met with the Central Valley Board and General Manager on November 22, 1991 and discussed our concerns with them. We explained to them that we believe their most pressing need was to eliminate the turmoil that exists on the board for it to assume an effective oversight and policy development role. Board members have definite opinions about improving operational efficiency at the facility but the conflict among board members and between some board members and the general manager prevents them from taking definitive action. We outlined for the board and management solutions that they might consider in correcting the situation that exists. We also told them that we would report what we found to you and the Audit Subcommittee for further direction.

At this time, we would suggest that the board and management be given an opportunity to correct the problems that exist, and we conduct a follow-up review to determine the action taken. At that time, you could consider whether more in-depth audit work is needed.

Central Valley History

To fully understand conditions in the district, some historical background about the development of CVWRF is needed. CVWRF was created when Congress passed the Federal Water Pollution Control Act Amendment of 1972. The Environmental Protection Agency used this act to mandate consolidation of sewage treatment plants in Salt Lake County.

As a result of the federal legislation, seven independent treatment facilities were replaced with one regional plant. Salt Lake County Cottonwood Sanitary District, Salt Lake City Suburban Sanitary District #1, Taylorsville-Bennion Improvement District, Granger-Hunter Improvement District, Kearns Improvement District, City of South Salt Lake, and City of Murray eliminated their plants and consolidated their operations into CVWRF.

The seven member entities organized under the provisions of an Interlocal Agreement in October 1978. The actual consolidation into one facility did not occur until 1988. Between 1978 and 1988, CVWRF was designing and building the new regional treatment facility. This effort included removing radioactive tailings from the old Vitro Plant site where the facility was constructed.

The Interlocal Agreement established the ownership percentage of each member entity and created the governance system. Under the agreement, each entity has one member on the governing board and all decisions require a two-thirds majority vote.

Since its inception, conflict has existed among the member entities because they were forced together by the federal government against their wills. Currently, this conflict focuses on the performance of the general manager. Board members are divided over how effectively he plans and directs plant operations. This dispute among board members and between some board members and the general manager has caused near policy paralysis within the district.

A Divided Board

In our opinion, this division among the board members prevents them from effectively dealing with issues important to the facility. Each board member could clearly identify both policy and operational concerns about the facility, but because of the turmoil the board has not been able to effectively organize itself to address these issues. To illustrate how this condition is affecting the facility, we have selected some of the operational and policy questions presented to us by board members and management.

Two important board oversight roles include reviewing audits and budgeting salary plan adjustments. As expected the district had an annual financial audit; but in addition, the district had contracted with Peat Marwick to complete a comprehensive management audit. In addition, the district had completed two salary surveys to determine appropriate compensation levels.

While the the audits and salary surveys were available to the board, the board was divided over their usefulness. Some board members felt they had not had enough input into their preparation while others were satisfied with the results. As a result, rather than answering questions, the audits and salary surveys further contributed to the division among board members and management.

Another important board oversight role is the annual budget review. Again, we found that the district had a fairly well defined budget process including budget committee hearings. Member entities were given the budget in advance, and some of their staffs had completed very thorough

reviews raising questions about travel, employee salaries and benefits, capital expenditures, etc.

Again, our attendance at a budget hearing and monthly board meeting found the board seriously divided. In these meetings, some board members were concerned about management's responsiveness to their recommendations for budget changes. They felt strongly that the general manager continued to include items in the budget of which the board disapproved. In both meetings we attended, the debate amongst the board members over this issue deteriorated to the point that the chairman lost control of the meeting and the board became dysfunctional. Later, they were able to regain control of the meeting and pass an operational and capital budget for the year.

Another issue that illustrates the continuing dispute involves a capital improvement project. For sometime, the board and management have been debating the need for odor control at the facility. Management and some board members want to place domes over the trickling filters while other board members and technical staffs from their organization do not believe the project is needed. In an attempt to resolve the issue, some board members, staff from the member entities, and CVWRF staff visited waste treatment facilities in Denver.

In discussing the results of the Denver visit with the various participants, each appears to have drawn different conclusions from the experience. From the interviews conducted with these people, it is difficult to believe that they all took the same trip with the same purpose in mind. Those opposed to the project believe that the general manager keeps placing the project in the district's budget even though enough votes do not exist to support it while those who support the general manager believe it is just a matter of time before the domes must be constructed.

Our previous reviews of other special service districts have shown that effective district oversight requires a "healthy tension" between management and the board. This condition exists when both the board and management clearly understand their roles. In our opinion, this condition does not exist at CVWRF. We have outlined below some suggested ways to restore this balance.

Proposed Solutions

In our opinion, the board members must find more effective ways of working together. They must also resolve the dispute over the general manager's performance and more clearly define their role in relationship to his. Completing this assignment sounds easy but will be difficult because of the animosity and hard feelings that exist among some board members and between some board members and the general manager. To start, board members and management must first agree to treat each other with some degree of professional respect. With this start, they can begin organizing themselves effectively, defining clear board and management roles, and agreeing on acceptable performance standards for the general manager.

To effectively organize, agree on roles, and define performance standards, we recommend that the board prepare in writing at least three documents. Preparing these documents can be included as a part of the strategic planning process now in place. First, the board should develop written by-laws. These by-laws should outline general board duties, general management duties, board leadership positions and responsibilities, and board committees.

Second, we recommend that the board prepare a detailed set of administrative policies. These policies should clearly defined those functions specifically retained by the board and those delegated to management. Along with the traditional board functions such as policy development and strategic planning, the board could clarify its responsibilities in such areas as budget preparation, financial

auditing, salary surveys, retirement committee, professional services contracts, etc.

Also, included in the administrative policies should be a detailed description of each board committee and its responsibilities. As a minimum, we would suggest that the board consider establishing three permanent committees; including budget, engineering and technical, and legal. Each should have a well established mission statement, clear reporting expectations, and staff assignments.

Third, we recommend that the board prepare an employment contract for the general manager. The continuing board debate about his performance can only be answered through the board agreeing about how to evaluate him. Preparing an employment contract would require the development of more definitive performance standards and a time frame in which performance would be evaluated. The board might consider a one year contract to start. At year end, they

can evaluate both the general manager's performance and consider ways to improve their performance criteria. After this initial period, a three year contract might be considered.

Preparing these documents will not be an easy task. With the hostility and animosity that exists, we recommend the board bring in a third party to facilitate preparation. We anticipate that the process of reducing board and management roles to writing through a third party facilitator may be as valuable in resolving existing problems as the actual written documents themselves.

Our second alternative would involve reopening the Interlocal Agreement with the intent of changing the two-thirds rule. The two-thirds now requires a five to two majority board vote to establish policy or approve expenditures. This rule might be changed so a simple majority could decide who to employ as general manager and to pass the operating budget.

If these actions are not successful in resolving differences, we would recommend more radical action. These alternatives would include replacing the existing board and general manager. The member entities might consider appointing new board representatives who have not been involved so directly in district disputes. If this were to occur, the general manager as well should be replaced to give the district a complete fresh start.

A final alternative might be to contract with a private firm to operate the facility. In contracting, the Central Valley Board would have to negotiate a very specific contract to govern the operation of the facility which would require clear definition of board and management roles.

As mentioned earlier, we recommend that the Central Valley Board and management be given some time to work on the problems we have outlined. After a reasonable period of time, we would like to observe their progress and report back to you about what they have accomplished. Depending on their success, you may want us to do additional work. After you have reviewed the information in this report, we would like to meet with you and answer your questions.

Sincerely,

Wayne L. Welsh
Auditor General

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