

## MEMORANDUM

**TO:** Audit Committee

**THROUGH:** Ray Tulloch

**FROM:** Clifford F. Dobler

**SUBJECT:** Potential charge offs of capitalized costs incurred at the Burnt Cedar Water Disinfection Plant #2299DI1401

**STRATEGIC  
PLAN REFERENCE(S):** None

**DATE:** 6-16-2022

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### **I. RECOMMENDATION**

Review, discuss and determine if action is necessary to expense costs that may have been incorrectly capitalized. This may also require identification of what level of asset componentization is being applied and too ensure consistency in this application.

### **II. BACKGROUND and ANALYSIS**

For the past six years from 7-1-2015 to June 30, 2021, \$548,004 in costs were charged to the Burnt Cedar Water Disinfection Plan capital project #2299DI1401. During that period, several charges for design, IVGID engineering, IVGID work orders, and outside purchases and contracts were included.

It is unclear, if all of the charges were capitalized under one capital assets or were capitalized as individual components of the Disinfection Plant.

#### **Probable Expense Items**

Concept designs were completed by Jacobs Engineering Group, Inc. for a contingency plan to extend water intake line for low levels in Lake Tahoe (\$28,037) and CH2M-Hill provided an evaluation of the SSADA system

(\$21,271). These charges should have been expensed based on Moss Adams recommendations.

IVGID Engineering charges of \$60,000 should have been expensed based on Moss Adams recommendations.

There were 7 internal work orders for \$5,647 which were for labor only and may not have reached the capitalization thresholds. There could be associated purchased items when combined with the labor could have reached the capitalization. A public records request have been made for the work ourders..

LA Perks Plumbing & Heating, Inc. repaired three inlet pumps for \$26,889 which should have been expensed as repairs.

Ferrell Civil Engineering charged \$4,350 for Beach flatscape and Carson Pump LLC, charged \$500. Both charges should have been expensed as the amounts did not meet capitalization thresholds.

Brown & Reed charged \$7,700 to repair the HVAC which should have been expensed.

There was \$35,182 charged by Coldale Electric Supply for Water Pump Station 2.1. Obviously a coding error.

### **Components subject to capitalization as separate items**

The vast majority of the remaining costs appear to be for new software and hardware.

### **Exhibits**

- A. List of Costs from 7-1-2015 to 6-30-2021
- B. Project Summary for 2020

### **III. BID RESULTS**

*Not required*

### **IV. FINANCIAL IMPACT AND BUDGET**

Possible prior period adjustment.

### **V. ALTERNATIVES**

NONE

**VI. COMMENTS**

NONE

**VII. STRATEGIC PLAN REFERENCE(S)**

NONE

**VIII. BUSINESS IMPACT**

.Material Weakness in financial statements effecting future financing arrangements.

EXHIBIT A

		From 07/01/2014 to 06/30/2021							
		Project 2299DI1401 Burnt Cedar Water Disinfection Plant Improvements							
EFFECTIVE DATE	DESCRIPTION	VENDOR	VENDOR INVOICE#	PO	DEBIT	CREDIT	BALANCE		
	Capital Improvements						0.00		
	<b>TOTAL</b>				<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		
					Balance	Forward	0.00		
11/30/2015	CIP #2299DI1401 - TO 19 - BCWDP Ozone ga	Jacobs Engineering Group Inc	4024787	16-0043	8,282.90		8,282.90		
12/31/2015	CIP Engineering Charges - December 2015				7,500.00		15,782.90		
02/29/2016	CIP Engineering Charges - February 2016				2,500.00		18,282.90		
03/31/2016	Project 2299DI1401 Installation new over <b>Did not meet threshold</b>	L.A. Perks Plumbing & Heating, Inc.	845923		3,850.00		22,132.90		
04/30/2016	CIP Engineering Charges - April 2016				6,500.00		28,632.90		
05/31/2016	CIP Engineering Charges - May 2016				2,500.00		31,132.90		
06/28/2016	TO 18 - BCWTP Low Lake Level Contingency	Jacobs Engineering Group Inc	4029345	16-0046	4,139.00		35,271.90		
06/30/2016	CIP Engineering Charges - June 2016				5,000.00		40,271.90		
06/30/2016	CH2M Hill				1,104.00		41,375.90		
06/30/2016	CH2M Hill				21,576.86		62,952.76		
06/30/2016	TO 18 - BCWTP Low Lake Level Contingency <b>Concept Project</b>	Jacobs Engineering Group Inc	4035265	16-0046	23,928.20		86,880.96		
06/30/2016	BCWDP Tech Support Services, TO 12.1.	Jacobs Engineering Group Inc	4035163	16-0053	502.20		87,383.16		
	<b>TOTAL</b>				<b>87,383.16</b>	<b>0.00</b>	<b>87,383.16</b>		
					Balance	Forward	87,383.16		
07/31/2016	CIP Engineering Charges - July 2016				2,000.00		89,383.16		
09/27/2016	TO 18 - BCWTP Low Lake Level Contingency <b>Concept Project</b>	Jacobs Engineering Group Inc	4033642	16-0046	4,109.80		93,492.96		
09/27/2016	BCWDP Tech Support Services, TO 12.1.	Jacobs Engineering Group Inc	4033641	16-0053	3,827.80		97,320.76		
09/30/2016	CIP Engineering Charges - September 2016				2,500.00		99,820.76		
10/01/2016	SCADA System Evaluation - CH2M Hill <b>Concept Project</b>				13,178.50		112,999.26		
10/31/2016	SCADA System Evaluation <b>Concept Project</b>	Jacobs Engineering Group Inc	4040915-A	14-0029	8,093.38		121,092.64		
11/30/2016	CIP Engineering Charges - November 2016				7,500.00		128,592.64		
01/31/2017	Work Order #8233				528.90		129,121.54		
01/31/2017	BCWDP Tech Support Services, TO 12.1.	Jacobs Engineering Group Inc	4045272	16-0053	7,308.75		136,430.29		
01/31/2017	CIP #2299DI1401 - TO 20 - BCWDB Electric	Jacobs Engineering Group Inc	4045276	17-0002	18,010.70		154,440.99		
02/07/2017	CIP #2299DI1401 - APOL 3/4 SS Chk Vlv 62	Western Nevada Supply	16892680		239.64		154,680.63		
02/28/2017	CIP Engineering Charges - February 2017				5,000.00		159,680.63		
03/14/2017	SS ball valve and actuator for drip leg	Bakersfield Pipe and Supply, Inc.	S2325805.002	17-0176	8,150.00		167,830.63		
03/14/2017	Freight	Bakersfield Pipe and Supply, Inc.	S2325805.002	17-0176	154.14		167,984.77		
03/24/2017	8 300 bolt & nut set zinc pltd	Western Nevada Supply	16949599		85.71		168,070.48		
03/28/2017	CIP #2299DI1401 - WPS2-1 pump control va	Western Nevada Supply	16886176	17-0171	10,937.95		179,008.43		
03/31/2017	parts	Western Nevada Supply	16958958		73.20		179,081.63		
03/31/2017	CIP Internal Work Order #8233				289.57		179,371.20		
03/31/2017	CIP Engineering Charges - March 2017				10,000.00		189,371.20		
04/25/2017	crane service	Connolly Crane Service, Inc	14217		708.75		190,079.95		
04/30/2017	CIP Work Order Charges - April 2017				2,110.53		192,190.48		
04/30/2017	CIP Work Order Charges - April 2017				1,853.22		194,043.70		
04/30/2017	CIP Engineering Charges - April 2017				6,500.00		200,543.70		
04/30/2017	CIP # 2299DI1401TO 20 - BCWDB Electric	Jacobs Engineering Group Inc	4050237	17-0002	46,166.45		246,710.15		

		From 07/01/2014 to 06/30/2021						
		Project 2299DI1401 Burnt Cedar Water Disinfection Plant Improvements						
EFFECTIVE DATE	DESCRIPTION	VENDOR	VENDOR INVOICE#	PO	DEBIT	CREDIT	BALANCE	
04/30/2017	BCWDP Ozone Piping Modifications	K. G. Walters Construction Co	17-0213	17-0213	5,800.00		252,510.15	
05/01/2017	CIP # 2299DI1401 - steel	U.S. Pipe and Foundry CO., LLC	INV050130		802.28		253,312.43	
05/01/2017	CIP # 2299DI1401TO 20 - BCWDB Electric	Jacobs Engineering Group Inc	4050237	17-0002		<del>46,166.45</del>	207,145.98	
05/01/2017	CIP # 2299DI1401TO 20 - BCWDB Electric	Jacobs Engineering Group Inc	4050237	17-0002	5,156.60		212,302.58	
05/03/2017	CIP # 2299DI1401BCWDP Tech Support Ser	Jacobs Engineering Group Inc	4050315	16-0053	1,888.10		214,190.68	
05/03/2017	CIP # 2299DI1401TO 20 - BCWDB Electric	Jacobs Engineering Group Inc	4050320	17-0002	1,257.60		215,448.28	
05/31/2017	CIP Work Order Charges - May 2017				561.40		216,009.68	
06/30/2017	CIP Work Order Charges - June 2017				303.42		216,313.10	
	<b>TOTAL</b>				<b>175,096.39</b>	<b>46,166.45</b>	<b>128,929.94</b>	
					Balance	Forward	216,313.10	
01/01/2018	BCWDP Tech Support Services, TO 12.1.	Jacobs Engineering Group Inc	4063154	16-0053	6,469.70		222,782.80	
01/01/2018	TO 20 - BCWDB Electrical and WPS-1 Impro	Jacobs Engineering Group Inc	4063152	17-0002	7,884.00		230,666.80	
03/07/2018	removal and install of new pump @ lakesh	Dan Trampe DBA Carson Pump LLC	4100		500.00		231,166.80	
03/27/2018	Repair of three inlet pumps at BCWDP, pe	Reed Electrical & Field Services	RJIR3974	18-0203	2,580.00		233,746.80	
04/01/2018	TO 20 - BCWDB Electrical and WPS-1 Impro	Jacobs Engineering Group Inc	4067496	17-0002	4,649.80		238,396.60	
04/13/2018	Burnt Cedar Beaches Flatscape - stair re	Ferrell Civil Engineering	2018	18-0209	4,350.00		242,746.60	
04/30/2018	Repair of three inlet pumps at BCWDP, pe	Reed Electrical & Field Services	RJIR4067	18-0203	12,155.19		254,901.79	
05/30/2018	Repair of three inlet pumps at BCWDP, pe	Reed Electrical & Field Services	RJIR4123	18-0203	4,244.81		259,146.60	
05/30/2018	Change Order Rebuild Water Damaged Pump	Reed Electrical & Field Services	RJIR4123	18-0203	7,910.38		267,056.98	
06/30/2018	TO 20 - BCWDB Electrical and WPS-1 Impro	Jacobs Engineering Group Inc	4068748	17-0002	801.20		267,858.18	
	<b>TOTAL</b>				<b>51,545.08</b>	<b>0.00</b>	<b>51,545.08</b>	
					Balance	Forward	267,858.18	
09/12/2018	Burnt Cedar WDP Improvements, Firewall s	CDW Government, Inc.	PDX9945	19-0054	4,985.00		272,843.18	
09/12/2018	Burnt Cedar WDP Improvements, Firewall s	CDW Government, Inc.	PDX9945	19-0054	1,100.00		273,943.18	
09/12/2018	Sales tax due to shipping to California	CDW Government, Inc.	PDX9945	19-0054	361.41		274,304.59	
10/01/2018	Birdseye Construction - Invoice 000259	???????			5,000.00		279,304.59	
10/31/2018	CIP Engineering Charges - October 2018				600.00		279,904.59	
10/31/2018	BCWDP Improvements Project, network and	Jacobs Engineering Group Inc	704839CH001	18-0308	4,846.10		284,750.69	
11/02/2018	WPS 2-1 Improvements; Quote S6400296. wrong account	Codale Electric Supply	S6400296.001	19-0035	35,182.26		319,932.95	
12/11/2018	BCWDP Improvements; Firewall system equi	CDW Government, Inc.	QFJ5040	19-0149	2,806.98		322,739.93	
12/13/2018	BCWDP Improvements; Firewall system equi	CDW Government, Inc.	QJX3404	19-0149	2,137.30		324,877.23	
12/14/2018	BCWDP Improvements; Firewall system equi	CDW Government, Inc.	QKD2594	19-0149	823.78		325,701.01	
12/18/2018	BCWDP Improvements; Firewall system equi	CDW Government, Inc.	QKX8078	19-0150	4,361.35		330,062.36	
12/20/2018	BCWDP Improvements; Firewall system equi	Dell Marketing LP C/O Dell USA L.P.	10288242608	19-0151	13,768.44		343,830.80	
01/09/2019	T100 compact GPS ntp server, surge supressor & antenna extension cable	SHI International Corp.	B09356276		912.78		344,743.58	
01/14/2019	CAT6 wiring for Scada project	CDW Government, Inc.	QQZ6215		148.81		344,892.39	
01/22/2019	BCWDP Improvements Project, network and security IT services, TO 28. - Srvc rendered 9/29 - 11/30/2018	Jacobs Engineering Group Inc	704839CH002	18-0308	14,444.06		359,336.45	
01/31/2019	CIP Engineering Charges				1,000.00		360,336.45	
01/31/2019	BCWDP Improvements; Firewall system equipment per Quote KGKN675. To be shipped to I. Ossokie ! Jacobs, 2525 Airport Park, Redding CA 96002.	CDW Government, Inc.	QJN8617	19-0149	2,392.22		362,728.67	

		From 07/01/2014 to 06/30/2021						
		Project 2299DI1401 Burnt Cedar Water Disinfection Plant Improvements						
EFFECTIVE DATE	DESCRIPTION	VENDOR	VENDOR INVOICE#	PO	DEBIT	CREDIT	BALANCE	
01/31/2019	BCWDP Improvements; Firewall system equipment per Quote KGKN675. To be shipped to I. Ossokie ! Jacobs, 2525 Airport Park, Redding CA 96002.	CDW Government, Inc.	QJN8617	19-0149		<del>2,392.22</del>	360,336.45	
01/31/2019	BCWDP Improvements; Firewall system equipment per Quote KGKN675. To be shipped to I. Ossokie ! Jacobs, 2525 Airport Park, Redding CA 96002.	CDW Government, Inc.	QJN8617	19-0149	2,392.22		362,728.67	
02/07/2019	TRIPP 24U RACK ENCLOSURE 33 DEEP	CDW Government, Inc.	QZZ5926		690.00		363,418.67	
02/09/2019	TRIPP PDU BASIC 120V 15A 5-15/20R & TRIPP RACK HEAVY DUTY SLIDING SHELF	CDW Government, Inc.	RBK0453		420.00		363,838.67	
02/28/2019	CIP Engineering Charges				500.00		364,338.67	
03/04/2019	Fortinet Fortitoken MOB SW 10U - BC improvements	CDW Government, Inc.	RJF6422		307.75		364,646.42	
03/05/2019	fortinet fg-100E + 1yr 24/7 support - BC improvement project	CDW Government, Inc.	RJL4524		2,563.28		367,209.70	
03/18/2019	Precision 5820 Tower XCTO Base - BC upgrades	Dell Marketing LP C/O Dell USA L.P.	10301420938		2,510.52		369,720.22	
03/19/2019	Burnt Cedar WDP Improvements Project; variable frequency drive installation. Work bid per NRS 338. - MAR2019 - Electrical #1 @ Burnt Cedar plant	San Joaquin Electric, INV	2019.03.19 - Elec.#1	19-0116	53,400.00		423,120.22	
03/21/2019	Burnt Cedar WDP Improvements Project; HVAC repairs. Work bid per NRS 338.	Brown & Read Engineering, Inc	10488	19-0185	7,700.00		430,820.22	
03/31/2019	CIP Engineering Charges				2,000.00		432,820.22	
04/09/2019	Change Order - Additional onsite installation BCWDP Improvements; Quote S6400296.	Codale Electric Supply	S6644602.001	19-0035	<del>3,325.00</del>		436,145.22	
04/09/2019	Change Order - Additional onsite installation BCWDP Improvements; Quote S6400296.	Codale Electric Supply	S6644602.001	19-0035		<del>3,325.00</del>	432,820.22	
04/09/2019	Change Order - Additional onsite installation BCWDP Improvements; Quote S6400296.	Codale Electric Supply	S6644602.001	19-0035	3,325.00		436,145.22	
04/09/2019	Change Order 2 BCWDP Improvements; Quote S6400296.							
04/09/2019	Extra work required for start-up of the VFD's post construction	Codale Electric Supply	S6644602.001	19-0035	10,238.00		446,383.22	
04/26/2019	TO 20 - BCWDB Electrical and WPS-1 Improvements Final Apr 28, 2018 to Dec 28, 2018	Jacobs Engineering Group Inc	393670CH004	17-0002	9,231.10		455,614.32	
04/26/2019	BCWDP Improvements Project, network and security IT services, TO 28. Dec 1, 2018 to Mar 29, 2018	Jacobs Engineering Group Inc	704839CH003	18-0308	25,704.80		481,319.12	
06/01/2019	BCWDP Improvements Project; engineering services during construction, per TO 32.	Jacobs Engineering Group Inc	D3203800-001	19-0192	14,997.94		496,317.06	
06/26/2019	BCWDP Improvements; new chemical feed pumps.	G3 Engineering Inc.	2019-6285	19-0332	13,981.00		510,298.06	
06/30/2019	PowerFlex 755 AC Packaged Drive	Codale Electric Supply	S6709568.001	19-0318	10,306.45		520,604.51	
	<b>TOTAL</b>				<b>258,463.55</b>	<b>5,717.22</b>	<b>252,746.33</b>	
					Balance	Forward	520,604.51	
05/05/2020	BCWDP Improvements Project; new LOX control panel.	Tesco Controls, Inc.	0070116-IN	20-0268	22,135.00		542,739.51	
	<b>TOTAL</b>				<b>22,135.00</b>	<b>0.00</b>	<b>22,135.00</b>	
					Balance	Forward	542,739.51	
10/05/2020	INSTALLED STANDARD RAIN GUTTERS @ 665 LakeshoreBlvd	Dunn Rite Inc	16034		2,082.00		544,821.51	
06/28/2021	Upgrade to Captor injection pump at Burnt Cedar WDP. Requested by K. Rudd.	G3 Engineering Inc.	2021-7151	21-0234	5,265.32		550,086.83	
06/30/2021	To expense CIP Cost to Operating					2,082.00	548,004.83	
	<b>TOTAL</b>				<b>7,347.32</b>	<b>2,082.00</b>	<b>5,265.32</b>	
	<b>GRAND TOTAL</b>				<b>601,970.50</b>	<b>53,965.67</b>	<b>548,004.83</b>	

Engineering Charges - \$60,000

## EXHIBIT B



### Project Summary

<b>Project Number:</b>	2299DI1401
<b>Title:</b>	Burnt Cedar Water Disinfection Plant Improvements
<b>Project Type:</b>	E - Capital Maintenance
<b>Division:</b>	99 - General Administration - Water
<b>Budget Year:</b>	2020
<b>Finance Option:</b>	
<b>Asset Type:</b>	DI - Distribution Infrastructure
<b>Active:</b>	Yes

<b>Project Description</b>	<p>The Burnt Cedar Water Disinfection Plant produces one billion gallons of potable drinking water for the 8000+ customers in Incline Village and Crystal Bay. The delivery of potable water to our customers is the most important mission of the Public Works Department. The two main federal water regulations that regulate the District's water system is the Surface Water Treatment Rule (SWTR 1989) and the Long Term 2 Enhanced Surface Water Treatment Rule (LT2 2006). The Plant contains raw water pumping, ozone system for disinfection for virus inactivation, ultraviolet system for girardia and cryptosporidium inactivation, chlorine dosing for residual disinfectin in the distribution, and treated water pumping. Associated with these processes are communication equipment, electrical equipment, instrumentation equipment, valving, standby electrical generation, chemical dosing etc. The plant has been in existence since 1961 with the most recent major upgrade completed in 2012 to achieve compliance with LT2.</p> <p>This project is to cover the on-going capital maintenance and replacement of the equipment and facilities at the water disinfection plant.</p>
<b>Project Internal Staff</b>	<p>Staff will oversee the design, bid and administer the construction.</p>
<b>Project Justification</b>	<p>This project is for on-going capital replacement of equipment and facilities at the water disinfection plant. This project also includes a possible extension of the water intake pipeline. EPA and State Regulations may require extension of the raw water intake to the water plant where it is deeper and farther from the shore and creek mouths where it will be less influenced by disturbances from storms. This project also includes the potential abandonment of the old water intake line in Crystal Bay owned by IVGID since 1978. This project funds mechanical, electrical civil and control system improvements.</p>

<b>Forecast</b>				
<b>Budget Year</b>	<b>Total Expense</b>	<b>Total Revenue</b>	<b>Difference</b>	
2020				
Electrical, Mechanical, and Pumping Improvements	25,000	0	25,000	
Removal of Washoe 1 Water Intake Line	25,000	0	25,000	
Year Total	50,000	0	50,000	
2021				
Electrical, Mechanical, and Pumping Improvements	25,000	0	25,000	
Removal of Washoe 1 Water Intake Line	30,000	0	30,000	
Year Total	55,000	0	55,000	
2022				
Electrical, Mechanical, and Pumping Improvements	25,000	0	25,000	
Year Total	25,000	0	25,000	
2023				
Electrical, Mechanical, and Pumping Improvements	25,000	0	25,000	
Year Total	25,000	0	25,000	
2024				
Electrical, Mechanical, and Pumping Improvements	25,000	0	25,000	
Year Total	25,000	0	25,000	
2025				
Water intake design	250,000	0	250,000	
Year Total	250,000	0	250,000	
2026				
Water intake construction	1,500,000	0	1,500,000	
Year Total	1,500,000	0	1,500,000	
	<b>1,930,000</b>	<b>0</b>	<b>1,930,000</b>	
<b>Year Identified</b>	<b>Start Date</b>	<b>Est. Completion Date</b>	<b>Manager</b>	<b>Project Partner</b>
2014	Jul 1, 2019	Jun 30, 2020	Engineering Manager	