

Memorandum

January 6, 2021

To: Indra Winquest

From: Cliff Dobler

CC : Audit Committee via Chairman Dent , Paul Navazio

Re: Budget manipulations - WRRF Aeration Systems Improvements Project #2599SS1707

IVGID management on many occasions has used the carryover budget provisions to add unbudgeted resources for a project which are not approved by the Board of Trustees and not in accordance with Board Policies and Practices.

The WRRF Aeration System Improvements is a clear example of the abuse. In fiscal year 2018, the project was initiated to design and install three large Blowers at the Waste Water Treatment Plant and a \$50,000 budget was approved for design. Nothing was spent and the \$50,000 was carried over into fiscal 2019 and an additional \$100,000 was budgeted. During 2019, two sole source design contracts were issued to CH2M- Hill for \$120,000, however, \$133,791 was spent. Logic should have prevailed that the budget carryover into fiscal 2020 would only be the remaining unspent budget of \$16,209 (\$150,000 less \$133,791). Instead IVGID management decided to carry forward \$100,000 and created a project cost overrun of \$83,791. The cost overrun was impossible since the available budget was \$150,000 and only two contracts were issued for \$120,000. A cost overrun never existed. As such, an additional budget of \$83K was created out of thin air and not even noticed let alone approved by the Board. IVGID management does not consider appropriate cumulative budget reporting. As a result the original 2018 budget of \$50,000 and the \$83,791 in cost overruns are no longer considered a part of the overall project reporting in future years.

In 2020 an additional \$1,200,000 was budgeted bringing the budgeted resources to \$1,300,000. In November, 2019 a construction contract along with other items were approved for \$1,728,500 and an additional \$38,000 approved to complete the design. Since the budget was short, the Board approved an additional \$466,500 in resources by transferring resources from other projects. The total cumulative budget was \$1,816,500, however, IVGID only recognized \$1,766,500 which excluded the 2018 original \$50,000 budget.

The current Draft Summary of CIP Activity by Project for the Fiscal Year ending June 30, 2020 indicates that \$133,791.30 was spent in 2019, \$329,758.73 was spent in 2020 and a carryover amount of \$1,598,534.00 was created and carried over into fiscal 2021. The combined amounts are \$2,062,084 which exceeds ALL of the project budgets of \$1,816,500 (Exhibit "A"). By manipulating the carryover amounts an additional \$242,584 of budget was created without any

review or knowledge by the Board of Trustees. These manipulations create a backdoor method of increasing project budgets allowing unauthorized additional expenditures to take place.

For projects that gap two fiscal years, IVGID management must estimate the annual project expenditures approximately two months prior to the end of that year. Poor estimating can create major disparities in a carryover budget. This Aeration project is a good example. According to form 4404LGF filed with the State in July 2020, the project expenditures for fiscal year 2020 were listed as only \$167,976, so the difference between the budget of \$1,766,500 and the expenditures was \$1,598,534 and hence became the carryover budget in the 2021 budget. Expenditures for 2020, however, ended up being \$329,758.73. resulting in a estimating miss of 100%. Why? Who knows. The problem is the carryover should have been reduced to \$1,436,741 to reflect the higher expenditures. This is never done. The estimated carryover, however, becomes the new reality and the extra budget created by misstating the carryover can be spent on anything that IVGID's management wants to stick into the project. The carryover is never reduced or adjusted and becomes a permanent part of the 2021 budget.

An interested Board and honest management would not allow this to occur and would require approval of adjustments to the annual budgets once expenditures are firmed up at the end of a fiscal year. Adjustments could be made within 90 days after the end of a fiscal year and should be placed as a Board Agenda item and approved by the Board. Any excess carryover amounts should be reclassified into Fund balance.

Since there is no Board Policy or Practice providing guidance on this abuse, it will continue in the future. The Effluent Pipeline Phase II is an excellent example of major abuses of using carryover budgets for unrelated projects.

I believe it is time to establish proper Policies and Practices to account for multiyear projects. Board Practice 13,2,0 addressing capital planning and capital expenditures is totally inadequate and poorly written .

Exhibit "A" - Worksheet on entire budget and existing and planned expenditures

EXHBIT "A"

Incline Village Genreal Improvement Distirct

WRRF Aeration System Improvements # 2599SS1707
 total approved budget and actual and planned expenditures
 as of June 30, 2020

	<u>Budget</u>	<u>Actual and Planned Expenditures</u>
Fiscal 2018	\$ 50,000	None
Fiscal 2019	100,000	133,791
Fiscal 2020	1,200,000	329,759
2020 used from Reserves	466,500	
Carryover to fiscal 2021		1,598,534
Total	<u>\$ 1,816,500</u>	<u>\$ 2,062,084</u>
Difference	\$ 245,584	Implied Cost Overrun