



INDEPENDENT CITIES
RISK MANAGEMENT
AUTHORITY

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August 6, 2015

To: Judge Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

To: Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701

Re: Independent Cities Risk Management Authority

Dear Judge Sanders:

This is the Independent Cities Risk Management Authority's (ICRMA) response to the OC Grand Jury report, which was distributed by cover letter dated June 22, 2015. As to ICRMA, the Grand Jury report made findings F4, F5, and F6, and recommendations R3 and R4. We respond to these as follows.

Finding F4: *Vertical Joint Powers Authorities with single controlling entity, such as a city council, have the potential to use this organizational structure as a shell company to avoid other legal constraints on the controlling entity and to obfuscate taxpayer visibility.*

We do not believe this finding applies to ICRMA. ICRMA in fact is a "horizontal" joint powers authority, as discussed in the Grand Jury report on pages 9 and 10. The structure of ICRMA is very similar if not identical to the diagram on page 10 of the Grand Jury report. ICRMA's 20 members are all independent cities. Each member has a vote on ICRMA's Board, which seeks to improve risk management and group-purchase reinsurance/excess insurance for its members. Control is equal between all member cities, and no one member is in control. ICRMA is not a "vertical" structure such as is illustrated on page 11 of the Grand Jury report.

Finding F5: *Vertical Joint Powers Authorities in which the controlling entity transfers assets from itself to a Joint Powers Authority for the purpose to obtaining additional funding, or signs a long-term lease to a Joint Powers Authority to obtain assets, are avoiding transparency and are not acting in the best financial interest of the taxpayers.*

As discussed under Finding F4, this finding does not apply to ICRMA. ICRMA is a "horizontal" JPA, not a "vertical" JPA. It does not enter into nor assign long-term leases. No controlling entity transfers assets from itself to ICRMA for the purpose of obtaining additional funding.

Finding F6: *32 of the Joint Powers Authorities identified in Orange County are not complying with the **California State reporting requirements in code Section 6500 and SB 282** according to the latest information available **from the year 2013.***

Re: Independent Cities Risk Management Authority
August 6, 2015
Page 2

ICRMA recognized this issue and corrected it prior to the release of the Grand Jury report. As explained in our letter of February 11, 2015 (copy enclosed for ease of reference), ICRMA moved its administrative office from Los Angeles County to Orange County in December 2011. In error, audit reports continued to be submitted to the Los Angeles County Auditor. Since the error was discovered, audited financials have been provided to the Orange County Auditor, and future submissions will be sent to Orange County.

Recommendation R3: *All Joint Powers Authorities should take the following actions to insure transparency to the taxpayers: (1) have an annual outside audit, (2) post the complete audit on their city website as a separate Joint Powers Authority entity, (3) send the audit to the County Controller and State Auditor, and (4) ensure the required reports are filed annually to the County and the State. (F.4., F.5.)*

ICRMA has been in compliance with these requirements, with the exception as explained above, which has been corrected. ICRMA obtains an annual outside audit; the complete audit report is presented to ICRMA's Governing Board, and the report is posted on ICRMA's website. Financial audits have been submitted annually to the California State Controller, and now to the Orange County Auditor, and ICRMA will continue submitting them in the future.

Recommendation R4: *The 32 Joint Powers Authorities that are not complying with the California State Law requiring annual reporting should become compliant by **submitting their 2014 report by December 31, 2015**, and submitting the required reports annually thereafter. (F.6.)*

As discussed above, ICRMA has complied with this recommendation.

Please contact me if there are questions or concerns in regard to these matters.

Best regards,


Beth Lyons
Executive Director

Attachment: Letter dated February 11, 2015