

Irvine



Project

BOARD

DARIN LOUGHREY, President
ALAN BATTENFIELD, Vice President
IRA GLASKY, Clerk
RUTH ANDERSON, Member
LYNN SCHOTT, Member

September 9, 2015

Paul S. Borzcik
Foreman
Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, California 92701

Dear Mr. Borzcik,

Please see below for response to findings and recommendations presented to the Irvine Child Care Project (ICCP) in the June 22, 2015 Orange County Grand Jury Report "Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency".

F.4. Vertical Joint Powers Authorities with a 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.

F.5. Vertical Joint Powers Authorities in which the controlling entity transfers assets from itself to a Joint Powers Authority for the purpose of 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.

Response to F.4. and F.5. ICCP disagrees wholly with the finding. Please see attachment #1 Memorandum provided by City Attorney Ruttan & Tucker.

F.6. 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.

Response to F.6. ICCP has submitted the 2013-14 Fiscal Year report to the Orange County Department of Education, the Orange County Auditor's/Controller's Office, and the California Department of Education, Attention: Audit Reports Review Section. Please identify which State reporting requirements in code Section 6500 and SB282 with which ICCP is not complying.

R.3. 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 the State Auditor and (4) Ensure the required reports are filed annually to the County and State

Recommendation R.3. Fully Implemented. ICCP hires an outside firm each year to complete the annual audit. The Annual ICCP Audit completed by independent auditing firm Vavrinek, Trine, Day & Co., LLP Certified Public Accountants, for fiscal year 2013-14 is posted online at:
<http://www.cityofirvine.org/child-care-development/irvine-child-care-project> .

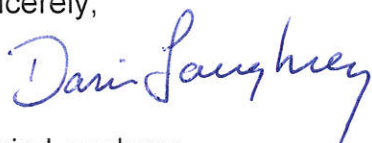
Per letter dated November 14, 2014 copies of the audit report were filed with the Orange County Auditor's/Controller's Office, the Orange County Department of Education, and the California Department of Education, Attention: Audit Reports Review Section (attachment #2).

R.4. 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.

Recommendation R.4. Fully Implemented. ICCP has submitted the 2013-14 Fiscal Year report to the Orange County Department of Education, the Orange County Auditor's/Controller's Office, and the California Department of Education, Attention: Audit Reports Review Section. Please identify any other reporting requirements.

If there are any questions with regard to this request, please contact Traci Stubbler at 949-724-6635.

Sincerely,



Darin Loughrey
President
Irvine Child Care Project

Attachments:

1. Memorandum provided by City Attorney Ruttan & Tucker
2. Letter from Vavrinek, Trine, Day & Co., LLP confirming filing of audit

MEMORANDUM

TO: Corinne Schneider-Jones
Community Services Manager

FROM: City Attorney's Office

DATE: September 21, 2015

RE: Irvine Child Care Project - Response to July 2015 OC Grand Jury Letter

In early July 2015, the Irvine Child Care Project (the "ICCP") received a second letter from the Orange County Grand Jury, with an accompanying report, "Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency" (the "Report").

In the Report, the Grand Jury determined that there are two general categories of Joint Powers Authorities ("JPAs") within California: (1) horizontal JPAs and (2) vertical JPAs.

A **horizontal JPA** is one whose member entities are similar entities that share a common problem or opportunity. A horizontal JPA has built-in organizational checks and balances because a member entity can withdraw from the JPA if the JPA is not providing the desired results and improvements. These checks and balances allow for self-correction and accountability.

In contrast, a **vertical JPA** is one whose member entities are essentially the same entity with a different organizational structure; all member entities of a vertical JPA are controlled by a single authority, *e.g.*, the City Council has authority over all member entities and over the JPA itself.

The ICCP is not a vertical JPA. The ICCP includes the City of Irvine and the Irvine Unified School District as member entities. The ICCP was formed by two similar entities that share a common goal – promotion of child care and child development opportunities in the local community. The member entities determined that it was in their best as member entities interest to join together to achieve this common goal at a reduced cost compared to that of each entity proceeding alone. As required by the ICCP Agreement for the Joint Exercise of Powers, the Irvine Unified School District makes sites available for child care facilities of the ICCP, and each member entity cooperates equally in promoting the purposes of the ICCP.

Importantly, the two member entities are **not** controlled by a single authority – the City Council has authority over the City of Irvine and the Board of Education has authority over the Irvine Unified School District.

Corinne Schneider-Jones
Community Services Manager
September 21, 2015
Page 2

The ICCP is governed by the ICCP Board, which is composed of:

- one member of the City Council of the City of Irvine;
- one employee of the City of Irvine;
- one member of the Board of Education of the Irvine Unified School District;
- one employee of the Irvine Unified School District; and
- one member of the community interested in child care.

Due to the composition of the ICCP Board, neither of the member entities has the ability to control the ICCP Board through a majority voting block. Therefore, the ICCP has an authority that is capable of providing self-correction and accountability through built-in organizational checks and balances. Furthermore, each member entity of the ICCP is motivated to have the ICCP perform better than the individual member entity could perform alone. If the ICCP is not providing the desired results, then either member entity can withdraw from the ICCP and thereafter perform alone.

Based on the foregoing, the **ICCP is a horizontal JPA**, as that term is defined by the Report.



Vavrinek, Trine, Day & Co., LLP
 Certified Public Accountants

VALUE THE DIFFERENCE

November 14, 2014

Traci Stubbler
 Irvine Child Care Project Administrator
 Irvine Child Care Project JPA
 5050 Barranca Parkway
 Irvine, California 92604

Dear Ms. Stubbler:

Enclosed are one unbound and 15 bound copies of the annual financial report for the Irvine Child Care Project JPA for the year ended June 30, 2014.

Copies of the report have been filed with the following:

Orange County Department of Education
 Howard Mainier
 200 Kalmus Drive
 Costa Mesa, CA 92628-9050

and

Via PDF to hmarinier@ocde.us

Orange County Auditor/Controller's Office

Jan Grimes

12 Civic Center Plaza, Room 200

P.O. Box 567

Santa Ana, CA 92702

California Department of Education
 Attention: Audit Reports Review Section
 Audits and Investigations Division
 1430 N Street, Suite 5319
 Sacramento, California 95814

Our Auditing Standards require certain communication to the Authority's governing board. The attached letter should be provided to each board member together with their copy of the audit report.

Very truly yours,

Richard R. Alonzo
 of VAVRINEK, TRINE, DAY & CO., LLP

RRA/rd

Enclosures