



Board of Directors

Margie L. Rice
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February 6, 2013

Honorable Thomas J. Borris,
Presiding Judge of the Orange County Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Re: Supplemental Responses of Midway City Sanitary District to the Grand Jury Report:
Let There Be Light – Dragging Special Districts from the Shadows

Dear Judge Borris:

On July 12, 2012, the Midway City Sanitary District Board of Directors responded to the findings and recommendations contained in the Grand Jury Report entitled “Let There Be Light – Dragging Special Districts from the Shadows” (“Report”) in conformity with California Penal Code Sections 933, subdivision (c), and 933.05. The supplemental responses provided below are to report on the progress for each recommendation accepted but not yet completed at the time of original response from Midway City Sanitary District (“MCSD” or “District”).

Supplemental Responses to Recommendations

- R6. Special districts should adopt “board of directors practices” for all their reserves, restricted and unrestricted. All reserves should be classified in their 2013-2014 budgets according to GASB Standard No. 54. LAFCO should work with the special districts to prepare standard criteria for accumulating reserves according to the new classifications by December 15, 2012. These standards should be used in preparing the 2013-2014 budgets. (See F7 & F9).**

MCSD has implemented this recommendation to the extent it is applicable to MCSD. In January 2013, the District’s Board of Directors adopted a Reserve Policy for all MCSD reserves. The Reserve Policy reflects the unique needs of the District for specific capital projects, legal requirements and prudent financial management.

That being said, GASB Standard 54 applies solely to government general fund (non-enterprise) districts. MCSD notes that GASB Standard No. 54 does not apply to MCSD because MCSD is an enterprise district (sewer and solid waste). Therefore, MCSD’s reserves will be classified in future budgets, but not specifically according to GASB Standard No. 54.



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- R8. Each special district should have an independent performance audit at least every three years. The executive summary of the performance audit should be distributed to all the taxpayers of each special district. Each of the special districts that has not had a performance audit within the last five years should contract with an independent outside consultant to conduct such an audit during 2012. These audits should be repeated at least every three years. (See F15).**

This recommendation will not be implemented by MCSD as it is not warranted. MCSD utilizes independent resources to audit and assess efficient and reliable financial and internal control practices.

Further, we believe that the Municipal Service Reviews (MSRs) that LAFCO conducts with all special districts is an effective process for evaluating performance in many of the same areas that a performance audit would cover. The MSRs are prepared and published by LAFCO and made available to the District and its Board of Directors, the public, the media, and others who may have an interest in assessments of local agencies. The MSRs evaluates the District in many areas, identifies its strengths and weaknesses, and makes recommendations as appropriate. Through the MSRs process, LAFCO has found no significant issues with the Midway City Sanitary District.

Annual independent audit reports can be found on the District's website at www.mcsandst.com and LAFCO's MSR reviews can be found at www.oclafco.com.

In conclusion, the Midway City Sanitary District Board of Directors hopes that these comments allow for a better understanding of the Midway City Sanitary District and how it operates. Thank you for the opportunity to submit supplemental responses to the Grand Jury's report. This concludes any outstanding responses on recommendations.

Sincerely,

Frank A. Cobo
President of the Board Directors
Midway City Sanitary District

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