August 20, 2015

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

Re: Response to Orange County Grand Jury Report

Dear Colleagues:

Enclosed are the Central Net Operations Authority responses to the recommendations included in the Orange County Grand Jury Report Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency.

If there are additional questions, please do not hesitate to contact my office at (714) 593-4587.

Respectfully,

Tony Coppolino
Chairman of the Board, Central Net Operations Authority

Enclosures

c: Lori Ann Farrell, Director of Finance, City of Huntington Beach
   Michael Gates, City Attorney, City of Huntington Beach
   Bob Hall, City Manager, City of Fountain Valley
   Patrick McIntosh, Fire Chief, City of Huntington Beach
   Fred Wilson, City Manager, City of Huntington Beach
RESPONSE TO GRAND JURY REPORT RECOMMENDATIONS
CENTRAL NET OPERATIONS AUTHORITY

FINDINGS

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

Response: Disagree with finding. The Central Net Operations Authority operates as a horizontal Joint Powers Authority with two member cities, Fountain Valley and Huntington Beach. This JPA was formed to provide a fire training facility for the joint use and benefit of each of the two member cities. Its members are similar entities and each member delegates a function of its authority to the JPA in order to improve training services and reduce the cost through economies of scale.

F5. 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: Disagree with finding. The Central Net Operations Authority (CNOA) operates as a horizontal JPA, with two member cities: Huntington Beach and Fountain Valley. The CNOA was formed to provide a fire training facility for the joint use and benefit of each of the member cities.

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 year 2013.

Response: Implemented. In accordance with California Government Code Section 6500 and SB 282, the Central Net Operations Authority is currently submitting the required reports annually to the State. The audited financial statements incorporating the financial reports of the CNOA are filed with the California State Controller's Office on an annual basis in conjunction with submittal of the City's annual Single Audit Report. The CNOA also submits the Special Districts Financial Transactions Report electronically to the California State Controller's Office on an annual basis.
Grand Jury Request – Central Net Operations Authority

In accordance with the above recommendation, the CAFR will also be submitted to the County Controller's office on an annual basis. The FY 2013-14 CAFR was submitted to the County Controller on August 11, 2015 (see Attachment 1).

RECOMMENDATIONS

R3. 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 the State. (F.4., F.5.)

Response: Partially implemented. In accordance with California Government Code Section 6505 (b) and (c), the Central Net Operations Authority is audited on an annual basis by a certified public accounting firm. The audit of the CNOA is completed in conjunction with the City's annual financial statement audit and is incorporated in the City's Comprehensive Annual Financial Report (CAFR). The audited financial statements are posted, by year, on the City's website at the following location: http://www.huntingtonbeachca.gov/government/Budget_information/index.cfm?cross=true&department=finance&sub=budget&page. A link to the statements will also be included on the Central Net Operations Authority website.

In addition, the audited financial statement incorporating the financial reports of the Central Net Operations Authority are filed with the California State Controller's Office on an annual basis in conjunction with submittal of the City's Annual Single Audit Report.

In accordance with the above recommendation, the CAFR will also be submitted to the County Controller's Office on an annual basis. The FY 2013/14 CAFR was previously submitted to the County Controller on August 11, 2015.

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.)

Response: Partially implemented. The response to R4 is similar to R3 above, that the JPA is currently submitting the required reports annually to the California State Controller's Office and will also send them on an annual basis to the County Controller's Office, starting with the submission of the FY 2013/14 CAFR on August 11, 2015.
Hi Leisha,

As per our phone conversation, please find attached the City of Huntington Beach’s Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2014. As discussed, the City’s CAFR includes the audited financial statement information for the following joint powers authorities:

- Huntington Beach Public Financing Authority (located on pages 125 and 129 of CAFR)
- Central Net Operations Authority (located on pages 144-145 of CAFR)

If you have any questions, please feel free to contact me.

Thank you,

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