



South Orange County Wastewater Authority

It Should Continue to Improve Its Accounting of Member Agencies' Funds and Determine Whether Members Are Responsible for Its Unfunded Liabilities

Background

Established in 2001 as a joint powers authority (JPA) by 10 local water and service districts and cities (members), the South Orange County Wastewater Authority (SOCWA) collects, transmits, treats, and disposes of wastewater as well as produces recycled water for irrigation and commercial usage. SOCWA's board of directors is composed of a representative from each of its members and is responsible for many functions including approving a budget, appointing its general manager, and taking other administrative actions. Members enter into agreements with each other to establish project committees to serve their specific needs and share the costs. Because SOCWA has no taxing authority, nearly all funding for its operations comes directly from contributions from its members.

Key Findings

- Until recently, SOCWA did not adequately track the cash it collected from its members and thus, does not know each member's share of remaining available cash.
- Although SOCWA has over \$18 million of unfunded obligations for pension and other postemployment benefits, its JPA agreement—like many JPAs—does not expressly hold its members liable for the costs of these retirement benefits. If members do not pay the outstanding debt and the JPA dissolves, SOCWA's retirement plan beneficiaries could have their retirement benefits reduced.
- SOCWA has had issues with and misreported its financial statements for 15 years and, although its external auditor identified deficiencies in its financial protocols, it has been slow to correct deficiencies.
 - » Financial statements were missing critical cost information.
 - » Audited financial statements were late for four of the last five years.
 - » Controls over inventory, payroll, and capital asset records were improper.

Key Recommendations

- The Legislature should require the following:
 - » New JPA agreements to hold the members responsible for the JPA's unfunded retirement obligations.
 - » All existing JPAs to communicate annually to their retirement plan participants whether JPA members are liable for the JPA's unfunded retirement obligations.
- SOCWA should do the following:
 - » Continue to investigate discrepancies in available cash balances and credit its members if it identifies any additional cash.
 - » Develop or amend policies and implement protocols to better account for cash, properly and timely prepare financial statements, and timely correct deficiencies that its external auditor identifies.