



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the City of Orange Housing Successor Special Revenue Fund (the Housing Successor), a major fund of the City of Orange, California (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Housing Successor's basic financial statements, and have issued our report thereon dated December 13, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Successor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*: 2021-001. This matter is described in the accompanying schedule of findings and questioned costs.





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City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 13, 2021



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City of Orange, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Late Submission of Annual Progress Report

Reference Number: 2021-001

Evaluation of Finding:

Noncompliance

Criteria:

Senate Bill 341 (SB 341) requires all successor housing entities to comply with annual report requirements. One requirement is for the City to report housing financial and activity information by including specified information with the Annual Progress Report (APR) required to be annually submitted to the Department of Housing and Community Development (HCD) by April 1 of the subsequent year pursuant to the State of California housing law in reporting progress in implementing the housing element.

Condition:

As part of our audit procedures, we noted that the APR for the fiscal year ended June 30, 2020, was submitted to HCD on May 18, 2021.

Cause of Condition:

The City's inability to submit the APR timely was due to the City's efforts to pass an additional dwelling unit ordinance during the first quarter of the year, and the considerable amount of staff time required in those efforts. There were also staffing shortages in the City's Community Development Department.

Effect or Potential Effect of Condition:

The effect is unknown.

Recommendation:

The City should implement policies and procedures to ensure timely reporting of the APR to HCD by April first of the subsequent year.

Management's Response and Corrective Action:

The City has assigned a specific staff member to this report, with the deadline scheduled for the responsible department. Based on available staff resources, the filing will remain an action item and the intent is to submit it by the deadline.