



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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange, California (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2022.

Report on 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-001.



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City of Orange, California's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, Solt & Luyhard, LLP

Brea, California
December 16, 2022



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SCHEDULE OF FINDINGS AND RESPONSES

Reference No.: 2022-001

Condition:

As part of our standard audit procedures, we examined the City's compliance with laws, regulations, grant agreements, contracts, and bond covenants. It was identified as part of this examination that the City did not submit its audited financial statement for the fiscal year ended June 30, 2021 to the Electronic Municipal Market Access (EMMA) website by the deadline prescribed by the Bond Official Statement, which is a required continuing disclosure for the 2021 Taxable Pension Obligation Bonds.

Criteria:

Securities and Exchanges Commission (SEC) Rule 15c2-12 requires dealers, when underwriting certain types of municipal securities, to ensure that the state or local government issuing the bonds enters into an agreement to provide certain information to the Municipal Securities Rulemaking Board (MSRB) about the securities on an ongoing basis. These disclosures are made available to investors and the public on the MSRB's EMMA website. Continuing disclosures provide updated financial or operating information about the state or local government that issued the bond, such as audited financial statements.

Pursuant to the Bond Official Statement for the 2021 Taxable Pension Obligation Bonds, the City has agreed to provide certain financial and operating data relating to the City by no later than March 31 of each year commencing March 31, 2022 to the MSRB's EMMA website.

Cause of Condition:

The City has contracted with a third-party consultant to submit continuing disclosures for the 2021 Taxable Pension Obligation Bond, and consultant staff failed to submit the audited financial statements for the fiscal year ended June 30, 2021 to MSRB's EMMA website when received from the City for submission. The City also did not have a review mechanism or procedure in place to verify that the consultant had completed the submission in a timely manner.

Effect or Potential Effect of Condition:

The City was not in compliance with the terms and conditions and covenants of the 2021 Taxable Pension Obligation Bond indenture and SEC Rule 15c2-12. However, as per the indenture, a failure by the City to comply with the provisions of the continuing disclosure requirement does not constitute an event of default.

Recommendation:

We recommend that the City develop procedures or a review mechanism to verify that continuing disclosures are submitted by the consultant in the manner prescribed by SEC Rule 15c2-12 and the 2021 Taxable Pension Obligation Bond's Official Statement, including verifying through a search of the MSRB's EMMA website after the audited financial statements have been issued but before the due date of March 31 that the continuing disclosure has been submitted by the consultant.

Client Response:

The City will develop procedures or a review mechanism to verify that continuing disclosures are submitted by the consultant in the manner prescribed by SEC Rule 15c2-12 and the 2021 Pension Obligation Bond's Official Statement including verifying through a search of the MSRB's EMMA website after the audited financial statements have been issued but before the due date of March 31st, that the continuing disclosure has been submitted by the consultant.



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Other Information:

The 2021 Taxable Pension Obligation Bond constitutes the most significant debt financing of the City with \$278,790,000 in principal outstanding at June 30, 2022. After discussing the matter with management, the City submitted the audited financial statements for the fiscal year ended June 30, 2021 to the MSRB's EMMA website on October 18, 2022.

Evaluation of Finding:

Significant Deficiency	_____
Material Weakness	_____
Material Noncompliance	<u> X </u>
Other Matters	_____