



CITY OF ORANGE, CALIFORNIA

JUNE 30, 2022

SINGLE AUDIT REPORT

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CITY OF ORANGE, CALIFORNIA

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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 questioned costs as item 2022-001.



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

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 & Lughard, LLP

Brea, California
December 16, 2022



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Orange, California (the "City")'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.



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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.



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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 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. We issued our report thereon dated December 16, 2022, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lance, Soll & Luyhard, LLP

Brea, California
December 16, 2022

CITY OF ORANGE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| <i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i> | <i>Assistance Listing Number</i> | <i>Pass-Through Entity Unique Entity ID</i> | <i>Total Federal Expenditures</i> |
|---|--|---|---------------------------------------|
| CDBG - Entitlement Grants Cluster | | | |
| Department of Housing and Urban Development: | | | |
| Direct Programs: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | N/A | \$ 1,603,194 |
| COVID-19 - Community Development Block Grants/Entitlement Grants | 14.218 | N/A | 20,000 |
| Subtotal - Assistance Listing 14.218 | | | <u>1,623,194</u> |
| Total Department of Housing and Urban Development Programs in Cluster | | | <u>1,623,194</u> |
| Total CDBG - Entitlement Grants Cluster | | | <u>1,623,194</u> |
| Highway Planning and Construction Cluster | | | |
| Department of Transportation: | | | |
| Passed through the State of California Department of Transportation (CalTrans): | | | |
| Highway Planning and Construction | 20.205 | D2C8ARJZKDJ7 | 798,802 |
| Total Department of Transportation Programs in Cluster | | | <u>798,802</u> |
| Total Highway Planning and Construction Cluster | | | <u>798,802</u> |
| Highway Safety Cluster | | | |
| Department of Transportation: | | | |
| Passed through the State of California Office of Traffic Safety: | | | |
| State and Community Highway Safety | 20.600 | XCA4E3XL2KY7 | 90,309 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | XCA4E3XL2KY7 | 188,766 |
| National Priority Safety Programs | 20.616 | XCA4E3XL2KY7 | 6,147 |
| Total Department of Transportation Programs in Cluster | | | <u>285,222</u> |
| Total Highway Safety Cluster | | | <u>285,222</u> |
| Other Programs | | | |
| Department of Housing and Urban Development: | | | |
| Direct Programs: | | | |
| Home Investment Partnerships Program * | 14.239 | N/A | 1,281,165 |
| Total Department of Housing and Urban Development | | | <u>1,281,165</u> |
| Department of Justice: | | | |
| Direct Programs: | | | |
| Equitable Sharing Program | 16.922 | N/A | 266,241 |
| Justice Assistance Grant | 16.738 | N/A | 30,808 |
| Passed through the County of Orange: | | | |
| COVID-19 - Coronavirus Emergency Supplemental Funding Program | 16.034 | GFFMCW9XDA53 | 17,772 |
| Tobacco Grant Program | 16.U01 | GFFMCW9XDA53 | 64,719 |
| Total Department of Justice | | | <u>379,540</u> |
| Department of the Treasury: | | | |
| Direct Programs: | | | |
| COVID-19 - Coronavirus State and Local Fiscal Recovery Funds * | 21.027 | N/A | 14,009,094 |
| Passed through the County of Orange: | | | |
| COVID-19 - Coronavirus Relief Fund | 21.019 | GFFMCW9XDA53 | 459,659 |
| Subtotal - Assistance Listing 21.019 | | | <u>459,659</u> |
| Total Department of Housing and Urban Development Programs | | | <u>14,468,753</u> |
| Department of Homeland Security: | | | |
| Passed through the County of Orange: | | | |
| Emergency Management Performance Grants | 97.042 | GFFMCW9XDA53 | 20,708 |
| Total Department of Homeland Security | | | <u>20,708</u> |
| Total Other Programs | | | <u>16,150,166</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 18,857,384</u> |

* Major Program

¹ There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

² No amounts were passed through to subrecipients during the year.

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF ORANGE, CALIFORNIA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Orange (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Contingencies

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF ORANGE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

| <u>Assistance Listing Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------------------------|--|
| 21.027 14.239 | Coronavirus State and Local Fiscal Recovery Funds Home Investment Partnership Program |

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? yes no

CITY OF ORANGE, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number: 2022-001

Evaluation of Finding:

Noncompliance

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.

Management's Response and Corrective Action:

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.

CITY OF ORANGE, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



CITY OF ORANGE

FINANCE DIRECTOR

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SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Finding: 2021-001: Description

Appropriate corrective actions were taken; this finding is considered resolved and is not repeated in the fiscal year ended June 30, 2022.