



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 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 (hereafter, the City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 26, 2026.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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

City of Orange, California's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LSL, LLP

Irvine, California
January 26, 2026



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

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 2025-001
Financial Closing and Reporting
Material Weakness

Condition

During our audit, we noted that the City recorded a substantial number of post-trial balance journal entries to correct errors and adjust account balances after the initial trial balance was prepared. The adjustments prepared staff, after audit has begun, were necessary to ensure the financial statements were presented in accordance with generally accepted accounting principles (GAAP).

Criteria

Government Auditing Standards and GAAP require entities to maintain effective internal controls over financial reporting to ensure accurate and timely preparation of financial statements. An effective financial closing process should minimize the need for extensive post-closing adjustments and ensure that account balances are complete and accurate prior to audit.

Cause

The City lost several key finance personnel during the year, including the Finance Manager, and Senior Accountant, while simultaneously implementing a new ERP system. These factors strained the department's capacity and contributed to weaknesses in the financial closing process, as staff turnover and system changes disrupted established procedures and reduced the availability of experienced personnel to perform timely reconciliations and reviews.

Effect or Potential Effect

The combination of staff turnover and ERP implementation caused delays in the financial closing process, increased the risk of errors, and required significant post-closing adjustments. These issues impacted audit readiness and the timeliness of financial reporting, creating inefficiencies and elevating the risk of material misstatements in the financial statements.

Recommendation

We recommend the City fill open positions to take over or allocate resources to the procedures that have led to impacts on the timeliness of the financial closing procedures. This will ensure all journal entries and reconciliations are prepared and will be included in the trial balance provided to the auditors at the beginning of the audit, and limit the number of post-trial balance journal entries.

Management's Response

Management acknowledges and concurs with the finding and recommendation. While the implementation of a new ERP system during Fiscal Year 2024–2025 created significant operational challenges, the turnover in key Finance positions highlights the critical need of allocating adequate staffing to core financial functions.

Management is actively recruiting to fill critical vacancies and is simultaneously exploring opportunities to streamline processes, leverage system capabilities, and implement innovative approaches to improve efficiency. With the combination of filling critical vacancies, process improvements, and continued stabilization of the new ERP system, the Finance Department is committed to provide a more timely and accurate trial balance at the start of next year's audit cycle.