INDEPENDENT ACCOUNTANTS' REPORT
ON AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below to assist the City of Orange, California (hereafter, the City) in verifying the City's compliance with its payroll policies for the period of July 1, 2025 – April 18, 2026. The City's management is responsible for ensuring compliance with its payroll policies.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of verifying compliance with the City's payroll policies. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and our findings were as follows:

EMPLOYEE COMPENSATION REVIEW

1. We obtained and reviewed the various City policies, applicable Memorandum of Understanding (MOU), and any other documentation prepared by the City to gain an understanding of pay rates, pay dates, and types of pay offered to employees

   Finding: No exceptions were noted as a result of our procedures.

2. We selected a statistical sample of employees for various pay dates during the fiscal year throughout the City and recalculated their pay per the payroll registers to the employees' personnel action forms, timesheets, and MOU for their bargaining unit. The statistical sample considered no less than 7 employees from each MOU with different positions/job titles (positions/job titles including levels 1, 2, 3 should be considered the same position/job title).

   Finding: No exceptions were noted as a result of our procedures.

3. We recalculated and verified all regular, overtime, leave, and special assignment pay identified in the sample to ensure there were no discrepancies.

   Finding: No exceptions were noted as a result of our procedures.

4. We verified that all pay rates in the sample were approved by the appropriate level of authority and that all payment was supported by appropriate documentation, including time sheets or workflows.

   Finding: No exceptions were noted as a result of our procedures.

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LEAVE AND TIME-OFF PROCEDURES

1. We obtained and reviewed the City's policies regarding special leave programs, including military leave pay and short-term disability programs against applicable laws and MOUs.

   Finding: No exceptions were noted as a result of our procedures.

2. We obtained an understanding of the City's practices regarding all Leave Benefits and payouts.

   Finding: With the exception of the Police Association and Police Management Association, the MOUs do not specify which pay rate is used to calculate the vacation and sick leave payouts. Our testing revealed that the payouts were calculated using a rate that consisted of the base pay and other specialty types of pay.

   Recommendation: The City should update the vacation and sick leave payout policies in its MOUs, other than the Police Association and Police Management Association, to specify the pay rate to be used for vacation and sick leave payouts upon termination.

   Finding: With the exception of the Police Association, Police Management Association, and Executive Management, the MOUs do not include the treatment of accumulated sick leave upon termination.

   Recommendation: The City should update its MOUs, other than the Police Association, Police Management Association, and Executive Management MOUs, to include the treatment of accumulated sick leave upon termination.

3. We reviewed the City's calculations of employee Leave Benefits banks and ensured the employee accruals are calculated in accordance with the City policies and MOUs.

   Finding: No exceptions were noted as a result of our procedures.

4. We verified through statistical sampling (specified above) of employee leave usage that compensatory time off (CTO) is removed from employee leave banks as used, and that amounts are paid to employees using appropriate pay rates. We verified through statistical sampling (specified above) of employee leave usage and payouts to ensure they are removed from the employee leave banks and the amounts paid out to the employee are calculated in accordance with the MOUs.

   Finding: No exceptions were noted as a result of our procedures.

5. We reviewed and recalculated any shift differential/fatigue/on-call/standby pay calculations and verified that the City complied with the Fair Labor Standards Act (FLSA), City policies and MOUs.

   Finding: No exceptions were noted as a result of our procedures.

PAYROLL COMPLIANCE AND INTERNAL CONTROLS

1. We gained an understanding of the City's internal controls and procedures through inspection of City policies and written procedures, interviews with City staff, and a test of controls utilizing statistical sampling methods to ensure that controls are effectively designed and implemented.

   Finding: Payroll staff are solely responsible for entering and updating pay rates in the payroll software based on personnel action forms (PAF) received from human resources (HR). In addition, HR does not verify whether pay rates are entered or modified correctly in accordance with the related PAF. This is a significant deficiency in internal controls with respect to lack of segregation of duties, and should be considered a top priority for remediation, due to the higher potential for fraud or error in this particular transaction cycle.

   Recommendation: For segregation of duties, independent review, and industry best practice, we recommend restricting access to and ability to edit pay rate information within payroll software exclusively to HR personnel. HR supervisors should ensure that the pay rates documented in employees' PAFs agree to the rates in the payroll software. HR should also review a pay rate modification report after each bi-weekly pay cycle to verify all changes in pay rates for proper authorization. The personnel responsible for processing payroll disbursements should not have access to enter or modify pay rates.

2. We examined and tested any payroll related information technology (IT) or computer controls, including password, access rights, and data management practices to ensure that controls are effectively designed and implemented.

   Finding: No exceptions were noted as a result of our procedures.

3. We provided feedback to the City regarding the industry's best practices for any key controls identified to be substandard or improperly designed or implemented.

   Finding: MOUs are currently prepared by the HR Department and provided to the various bargaining units and the City Attorney for review and approval. This is a departure from the normal process found in other local governments and represents a potential weakness in internal control with respect to the approval and authorization of employee benefits, and consistency and accuracy of information provided to CalPERS.

   Recommendation: As a best practice, we recommend that the HR Department present the terms and conditions of proposed MOUs to the City Council, City Manager, and City Attorney to ensure alignment with the governing body's and executive management's goals with respect to personnel prior to presentation of the MOU to the bargaining unit for approval. This also allows the appropriate parties to exercise sufficient oversight over the benefits provided to employees. Furthermore, as an additional safeguard, draft MOUs should also be provided to CalPERS for a review to ensure that the pension administrator is aware of changes to the covered members' payroll and benefit terms.

<u>OVERTIME PAY REVIEW</u>

1. We obtained an understanding of the City's overtime (OT) practices outlined in the MOUs and City Policies.

   Finding: Our review of the overtime policies in the MOUs revealed that only the Police Association and Police Management Association MOUs specifically define the pay rate used to calculate overtime pay. During our testing, we noted that overtime pay included various types of specialty pay in addition to the base salary or wage.

   Recommendation: We recommend an update to the overtime policy in each MOU, other than Police Association and Police Management Association, to define the pay rate used to calculate overtime pay.

2. We reviewed the City's OT policies and practices and MOU against the requirements of FLSA.

   Finding: No exceptions were noted as a result of our procedures.

3. We verified overtime calculations through a statistical sampling (specified above) to ensure compliance with both FLSA and MOUs guidelines.

   Finding: No exceptions were noted as a result of our procedures.

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's compliance with its payroll policies. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information of the City Council and management of the City of Orange and is not intended to be, and should not be, used by anyone other than these specified parties.

LSL, LLP

Irvine, California
July 7, 2026