

ORANGE COUNTY SANITATION DISTRICT

Single Audit Report

Fiscal Year Ended June 30, 2023

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Fiscal Year Ended June 30, 2023

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Independent Auditor's 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*

Independent Auditor's Report

Board of Directors
Orange County Sanitation District
Fountain Valley, 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 Orange County Sanitation District (OC San), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OC San's basic financial statements, and have issued our report thereon dated October 26, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OC San'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 OC San's internal control. Accordingly, we do not express an opinion on the effectiveness of OC San'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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OC San'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*.

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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
October 26, 2023

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Orange County Sanitation District
Fountain Valley, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Orange County Sanitation District's (OC San) 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 OC San's major federal programs for the year ended June 30, 2023. OC San'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, OC San complied, in all material respects, with the 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, 2023.

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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 OC San 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 OC San'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 OC San's federal programs.

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 OC San'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 GAAS, *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 OC San'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 OC San'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 OC San'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 OC San'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 with a type of compliance requirement of a federal program 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 that might be material weaknesses or significant 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 described above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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

We have audited the financial statements of OC San as of and for the year ended June 30, 2023, and have issued our report thereon dated October 26, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
October 26, 2023

ORANGE COUNTY SANITATION DISTRICT

Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2023

Federal Grantor / Pass-Through Grantor / Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>United States Environmental Protection Agency</u>			
Water Infrastructure Finance and Innovation Act (WIFIA)			
Passed Through Orange County Water District:			
Groundwater Replenishment System (GWRS) Final Expansion			
Plant 2 Headworks Modifications; OC San Project P2-122	66.958*	WIFIA – N17116CA	\$ 3,794,718
<u>United States Department of Transportation:</u>			
Passed Through California Department of Transportation:			
Highway Planning and Construction			
Passed Through Orange County Transportation Authority:			
Utility Agreement No. OCSD-1005; OC San Project FE18-13	20.205	STPLN-6071 (129)	<u>67,290</u>
Total Federal Expenditures			<u>\$ 3,862,008</u>

* Denotes major program

See accompanying Notes to Schedule of Expenditures of Federal Awards

ORANGE COUNTY SANITATION DISTRICT

Notes to the Schedule of Expenditures of Federal Awards

Fiscal Year Ended June 30, 2023

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Orange County Sanitation District (OC San) under programs of the federal government for the year ended June 30, 2023. 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. Because the Schedule presents only a selected portion of the operations of OC San, it is not intended to and does not present the financial position, changes in net assets or cash flows of OC San.

(b) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis which is described in Note 1 of the notes to OC San's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards.

(c) Indirect Cost Rate

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

ORANGE COUNTY SANITATION DISTRICT
Summary of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	2023-001
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.958	Water Infrastructure and Innovation Act (WIFIA)

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

ORANGE COUNTY SANITATION DISTRICT
Summary of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023

(Continued)

Section II – Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards

(2023-001) Capital Asset Recordkeeping

Criteria

The *Governmental Accounting Standards Board* (GASB) establishes financial reporting requirements for capital assets in GASB Statement No. 34. The Statement includes assertions for valuation, existence and rights and obligations for amounts reported in the year-end financial reports.

Condition

During our audit for the fiscal year ended June 30, 2023, we performed an unpredictability test to physically inspect older capital assets. We selected a sample of 15 assets for inspection and found that 8 assets (53%) were no longer in use and incorrectly included in OC San's capital asset listing.

Additionally, during our testing of construction in progress, we identified additional capital assets that were no longer in use.

Cause

Many of OC San's construction projects occur over multiple years. OC San's policy is to remove any disposed of or rehabilitated asset from the capital asset listing at the time the new asset is placed in service. The disposal of the replaced asset occurs prior to the completion of the new asset and sometimes the timing difference crosses fiscal years.

Effect

For the capital assets not located during the physical inspection, there is no impact on net assets at June 30, 2023, because the assets were fully depreciated.

For construction in progress, we identified assets with a net book value of approximately \$7.4M that are no longer in use as of June 30, 2023.

Recommendations

We recommend OC San perform a detailed review of historical capital asset records for the purposes of identifying assets that should be removed from the accounting system. We also recommend OC San evaluate the policy and timing of removing old assets relating to ongoing construction projects to better align the timing of when assets are removed from service.

ORANGE COUNTY SANITATION DISTRICT
Summary of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023
(Continued)

Views of the responsible officials and planned corrective actions

OC San has engaged a firm to conduct a comprehensive fixed asset inventory. This effort will identify and confirm the assets in the accounting system, subsequently OC San will adjust those assets that are no longer in the capital asset listing. OC San is also developing a procedure to annually review the commissioning and decommissioning of assets during active construction, to better align the timing of when capital assets are recorded.

ORANGE COUNTY SANITATION DISTRICT
Summary of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023
(Continued)

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings reported.

ORANGE COUNTY SANITATION DISTRICT
Summary of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023
(Continued)

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings reported.

ORANGE COUNTY SANITATION DISTRICT

Status of Prior Audit Findings

Fiscal Year Ended June 30, 2023

There were prior year audit findings reported.