



February 5, 2025

To the Audit Oversight Committee,
Board of Supervisors, and
Auditor-Controller
County of Orange, California

We have audited the Schedule of Assets Held by the County Treasury (Schedule) of the County of Orange, California (County) as of and for the year ended June 30, 2023, and have issued our report thereon dated February 5, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Schedule Audit under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our letter dated October 5, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the Schedule that has been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the Schedule does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the Schedule is free of material misstatement. An audit of Schedule includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated February 3, 2025.

Planned Scope and Timing of the Audit

We initially conducted our audit consistent with the planned scope and timing we previously communicated to you. However, during the audit, management changed the accounting method used to prepare the Schedule from the modified cash basis of accounting to the full accrual basis of accounting. This change in accounting method resulted in significant delays with completing the annual audit of the Schedule.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the Schedule is free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the Schedule and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks:

- The potential for management override of internal control – Professional standards require auditors to address the possibility of management overriding controls.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the Schedule. There have been no initial selection of accounting policies during 2023. As disclosed in Note 1 to the Schedule, the June 30, 2023 Schedule was prepared using the economic resources measurement focus and the accrual basis of accounting. The June 30, 2022 Schedule was prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The County has also changed its policy for determining which short-term, highly liquid investments will be treated and reported as cash equivalents. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments. No such sensitive accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the County's Schedule relate to:

As discussed in Note 4 to the Schedule, as allowed per California Government Code (CGC) Section 53607, the delegation of authority by the Board to invest or reinvest funds of the County and the funds of other depositors to the Treasurer was not renewed for a one-year period and expired on December 31, 2024. Therefore, with regard to County funds and the funds of other depositors in the County Treasury for 2025, the Board is the agent of the County who serves as a fiduciary and is subject to the prudent investor standard, and the Treasurer is the agent and fiduciary for funds deposited in the County Treasury that are deposited by local agencies other than the County and at the discretion of those local agencies.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

However, during the audit, management changed the accounting method used to prepare the Schedule from the modified cash basis of accounting to the accrual basis of accounting. This change in accounting method resulted in significant delays with completing the annual audit of the Schedule.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the Schedule as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period Schedule to be materially misstated, even though the uncorrected misstatements are immaterial to the Schedule currently under audit. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the County's Schedule or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

We have included an emphasis of matter in the auditor's report to describe that the Schedule presents only the assets of the County Treasury, and does not purport to, and does not, present fairly the financial position of the County as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated February 5, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as County's auditors.

Existence of Unexpected Significant Matters Relevant to the Financial Reporting Process

We identified the following unexpected significant matters relevant to the financial reporting process.

During the audit, management changed the accounting method used to prepare the Schedule from the modified cash basis of accounting to the economic resources measurement focus and the full accrual basis of accounting, conforming with CGC section 26920(b). In previous years, the Schedule was prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The change in accounting method resulted in reporting the book value of cash and cash equivalents and reporting accrued interest receivable. This change in accounting method also resulted in significant delays with completing the annual audit of the Schedule.

This information is intended solely for the information and use of the Audit Oversight Committee, Board of Supervisors and management and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California