

South Orange County Wastewater Authority

Dana Point, California

**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***

For the Year Ended June 30, 2022



South Orange County Wastewater Authority

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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 Auditors' Report

To the Board of Directors
of the South Orange County Wastewater Authority
Dana Point, 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 South Orange County Wastewater Authority (the "Authority"), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 21, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority'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*.

Authority's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PwC Group, LLP

Santa Ana, California
November 21, 2022

South Orange County Wastewater Authority
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Finding 2022-001 Internal Control Over Financial Reporting

Criteria:

Management is responsible for the accuracy of the financial statements, including disclosures. As part of satisfying that responsibility, staff should possess the skills and knowledge necessary to complete the year-end close and diligently employ that knowledge and skill to produce reliable and accurate financial information.

Condition:

During the year ended June 30, 2022, the Authority has identified its ownership of the project – PC10, San Clemente Land Outfall which was not reported on the Authority’s financial statements and it resulted in a restatement of July 1, 2021 net position in the amount of \$1,709,802.

Cause:

The original intent was for the Authority to transfer the assets to the City of San Clemente. However, the transfer of the title of the assets to the City of San Clemente was not executed.

Effect:

The Authority’s net position was understated in the past by \$1.7 million.

Recommendation:

If the intent between all parties involved was to transfer title to the assets to the City of San Clemente, action should be taken in the Authority’s Fiscal Year 2022-23.

View of Responsible Officials:

To the best of their knowledge, Project Committee No. 10 was formed for the purpose of the design, construction, and operation of a Coast Highway Land Outfall to be funded and used by the City of San Clemente. The assets in question were completed July 9, 1981, prior to the three agencies’ consolidation into SOCWA, and improvements were added in Fiscal Year 2018.

City of San Clemente Land Outfall								
Date of Completion: July 9, 1981								
Asset Category: Infrastructure								
Useful Life: 75 years								
	As of June 30, 2021				As of June 30, 2022			
	Annual Depreciation	Costs	Accumulated Depreciation	Net Book Value (NBV)	Additions	Deletions	Depreciation Expense	Balance
Design Costs		\$145,694						
Construction Costs		\$2,959,087						
Total	\$41,397	\$3,104,781	(\$1,655,883)	\$1,448,898			\$41,397	\$1,407,501
Asset added in 2018; 75 years life								
WRP Outfall Discharge Line	3,007.00	225,521.50	(9,020.86)	216,500.64			3,007.00	213,493.64
Total Fixed Assets	\$44,404	\$3,330,303	(\$1,664,904)	\$1,665,398	0.00	0.00	\$44,404	\$1,620,994
	Fiscal Year 2020	3,330,302.50	(1,620,500.50)	1,709,802.00	Accum. Depr.		(\$1,709,308)	

SOCWA’s predecessors, the Aliso Water Management Agency (“AWMA”), South East Regional Reclamation Authority (“SERRA”), and South Orange County Reclamation Authority (“SOCRA”), intended for the assets to be transferred to the City of San Clemente (City); who funded the project, is the operator and sole user of the assets. The City has confirmed that it was their intent to receive title to the assets. SOCWA’s Board may discuss quitclaiming the assets to the City of San Clemente later in the 2022 calendar year.

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