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Honorable Mayor and City Council Orange, California

In planning and performing our audit of the City of Orange and its component units for the year ended June 30, 2006, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we believe represent opportunities for strengthening internal controls.

(1) Access to City's Network

Access to the City's network is not restricted timely when an employee is terminated. The City's Information Systems Department conducted an audit during the current fiscal year and identified several terminated employees who still had access to the City's network. The City's current policy requires the Personnel Department to send a termination confirmation notice to the Information Systems Department to notify them an employee has been terminated, however, this procedure is not always being followed. As a result, unauthorized individuals could gain access to the City's network.

Recommendation

We recommend that the Personnel Department consistently provide a termination confirmation notice to the Information Systems Department when the employee is terminated so that the employee's access to the City's system can be removed.

Management Response

The City concurs and will make the recommended changes.



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(2) Overtime in the Police Department

In September 2006, the Police Department requested an appropriation for \$495,000 to fund excess overtime that was incurred during the fiscal year ended June 30, 2006. This amount represents a 36% increase in overtime from the prior year.

Recommendation

We recommend the City consider at least one of the following procedures for better financial planning in the future:

- The City should include the excess overtime costs during the City's annual budget process and approve an appropriate amount based on prior year actual costs so adjustments in other budgets can be made to cover the cost if necessary.
- The Police Department should consider improving its current procedures for planning staffing needs to mitigate the overtime occurred in future periods.
- We recommend the Department Head closely monitor the Police Department's overtime costs during his review of monthly financial reports. Furthermore, when the Department Supervisor becomes aware of circumstances where significant amounts of overtime would be required, we recommend the appropriate approval is obtained from the Department Head and City Manager, when practical.

Management Response

The City concurs and will make the recommended changes noted by the third bullet point.

(3) Monitoring Procedures for Housing Units

The Agency's current system of monitoring levels of affordable housing to low and moderate income households needs to be improved to be in compliance with Health and Safety Code Section 33418. Currently, the Agency requires property owners to submit a signed form entitled "Annual Certification of Continuing Program Compliance". However, Section 33418(a) of the Health and Safety Code requires that:



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(3) Monitoring Procedures for Housing Units, (Continued)

"An agency shall monitor, on an ongoing basis, any housing affordable to persons and families of low or moderate income developed or otherwise made available pursuant to any provisions of this party. As part of this monitoring, an agency shall require owners or managers to submit an annual report to the agency. The annual reports shall include for each rental unit the rental rate and the income and family size of the occupants, and for each owner-occupied unit whether there was a change in ownership from the prior year and if so, the income and family size of the new owners. The income information required by this section shall be supplied by the tenant in a certified statement on a form provided by the agency."

Recommendation

We recommend the Agency modify its current monitoring procedures to obtain annual report for its affordable housing units that include the information specified in Health and Safety Code Section 33418.

Management Response

The City and Redevelopment Agency concur and will make the recommended changes.

(4) Accounting Policies and Procedures

Although the City has sound internal control procedures for all accounting cycles, we noted that the City does not have current *written* policies and procedures for the following duties:

- Investments
- Wire transfers
- Processing of cash disbursements (i.e. approval of invoices, processing for payment)
- Journal entries

Written policies and procedures are a helpful tool for newly hired employees as new positions are created and/ or if turnover were to occur. The City's policies should describe, in detail, responsibilities by position for the duties noted above.



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(4) Accounting Policies and Procedures, (Continued)

Recommendation

We recommend that the City consider updating its current written policies and procedures related to all significant accounting issues performed by finance.

Management Response

The City concurs and will make the recommended changes.

This report is intended for the information of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mayor Hoffman Melann AC.

Irvine, California September 29, 2006