

To the Honorable City Council
of the City of Orange
Orange, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange, California (the City) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, we identified a certain matter involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 4, 2017, on the financial statements of the City. Our comment and recommendation is intended to improve the internal control or result in other operating efficiencies.

Our comment with our recommendation for improvement is summarized as follows:

Deposits Payable

Auditors' Comment

The City collects deposits from developers and others that are typically refundable upon satisfaction of certain City terms. In some cases, the depositor forfeits the deposit, which the City would then record as revenue. During our review of deposit payable accounts, we noted a deposit balance for which supporting schedules of the deposit detail were unavailable and the age and composition of the deposit balance could not be determined. We recommend the City analyze its outstanding deposits payable balances to determine the true balance of deposits payable that constitutes refundable deposits. Status of old deposits should be researched and adjusted if necessary.

Management's Response

While the individual amounts comprising this account balance are each below a material dollar level, management will apply any available staff resources to determine the correct disposition of each account balance.

City's Response to Finding

The City's response to the finding identified in our comment is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

White Nelson Dick Evans LLP

Irvine, California
January 4, 2017