# City of Orange

Orange, California

Recommendations to Management

For the year ended June 30, 2005





To the Honorable Mayor and Members of City Council of the City of Orange Orange, California

In planning and performing our audit of the basic financial statements of the City of Orange (City) for the year ended June 30, 2005, we considered the City's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal controls.

However, during our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated September 22 2005, on the basic financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with management, are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to express our appreciation to the City's staff for their cooperation, assistance, and support during this year's audit process.

This report is intended solely for the information and use of the City Council, management and others within the City.

Costa Mesa, California

Capanici & Carson

September 22 2005

# City of Orange Recommendations to Management For the year ended June 30, 2005

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# City of Orange Recommendations to Management For the year ended June 30, 2005

#### 1. CURRENT YEAR'S OBSERVATIONS

## A. Fraud Policy

#### **Observation**

While making inquiries with management as required by *Statements of Auditing Standards* No. 99 - *Consideration of Fraud in a Financial Statement Audit*, it was observed that the City did not have a written policy on Fraud. Such a policy would identify fraud risk areas and provide guidelines for the City's staff on communicating and preventing or deterring fraud.

### Recommendation

It is recommended that the City establish a written policy on fraud that outlines what the City considers as fraudulent acts and steps or actions that City staff should take to report such acts. The purpose of having a policy in writing is to assure that all employees are aware of what is considered by the City to be fraudulent acts, what the procedures are for reporting suspected fraudulent acts, and how these acts will be investigated.

## City Response

We concur with this finding and have drafted a written policy on fraud which is scheduled to be presented to our Audit Committee on December 15, 2005.

#### B. Disaster Contingency Plan

#### Observation

The City has not adopted a written Disaster Contingency Plan that details the actions required should a disaster occur that affects the computer operations of the City.

#### Recommendation

We recommend that the City develop a plan on how to recover vital City operations should a disaster cause a prolonged interruption of City IT operations.

## City Response

We concur with this finding and have a plan in draft form which will be finalized during fiscal year 2005-06. A partial implementation of the plan has already begun and we expect to continue implementation during fiscal year 2005-06 and into fiscal year 2006-07 after the plan has been finalized.