

INDEPENDENT AUDITORS' 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*

The Honorable City Council
of the City of Orange
Orange, 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 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, 2018 and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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 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. 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 determination of financial statement amounts. 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below.

Compliance with Senate Bill 341

Auditors' Comment and Recommendation

Senate Bill 341 requires all successor housing entities to comply with annual report requirements. One requirement is for the City to report housing financial and activity information by including specified information with the Annual Progress Report (APR) required to be annually submitted to the Department of Housing and Community Development (HCD) by April 1 of the subsequent year pursuant to the State of California housing law in reporting progress in implementing the housing element. The City submitted the APR for the fiscal year ended June 30, 2017 on June 21, 2018, which was after the due date of April 1, 2018. We recommend that the City implements policies and procedures to ensure timely reporting of the APR to HCD.

Management's Response

Staff resource limitations and competing project demands resulted in a delay to accumulate the required information and submit the report to the State. The City continues to make efforts to submit this report on a timely basis.

Compliance with Assembly Bill 2766

Auditors' Comment and Recommendation

The City must comply with Assembly Bill 2766 (AB2766), Chapter 1705 (Health and Safety Code Sections 44220 through 44247) as it relates to the Air Pollution Reduction Special Revenue Fund (AQMD). The City operates a trip reduction program which requires documentation of compliance with program requirements for each employee that participates. The City did not have proper support for one employee that participated in the program during fiscal year 2017-2018. We recommend that the City implements policies and procedures to ensure all participating employees submit the required documentation.

Management's Response

The City has established monthly internal auditing procedures to specifically address participants' eligibility and the required documentation to support trip reduction payments.

City's Response to Findings

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
December 10, 2018