



CERTIFIED PUBLIC ACCOUNTANTS

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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*

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

We have audited 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below or in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses but no other deficiencies that we consider to be significant deficiencies.

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 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. We consider the following deficiencies or the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses:



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Year End Audit Adjustments

During our testwork, we noted exceptions in which invoices relating to services performed prior to the end of the fiscal year were not recorded as payables in the proper accounting period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting. Audit adjusting entries have been provided to accrue these invoices.

Fund Balance restatements

During our test work we noted instances where fund balance restatements were necessary. These adjustments were needed to correct errors in prior year relating to the capitalization of assets in both the Governmental and Business Type Activities, and to correct prior misclassification of revenue in the Housing In Lieu Fund in the former Redevelopment Housing Fund rather than the Other Governmental Funds.

Posting Journal Entries

During our test work, it was noted that entries were posted during the year to fund balance accounts, which results in an erroneous fund balance restatement. Journal entries to reverse a \$1 million restatement related to the principle payments made from the former Redevelopment Agency to the City regarding the parking lots. We recommend that management implement a procedure to verify fund balance accounts are used only when correcting errors from prior periods.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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.

This report is intended solely for the information and use of management, the audit committee, the City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

Brea, California
March 19, 2013