

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

To the Honorable Mayor  
and Members of City Council  
of the City of Tustin  
Tustin, 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 Tustin, California, and its blended component units, including the Tustin Community Redevelopment Agency (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2011. 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.

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.

## Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below, that we consider to be a significant deficiency in internal control over financial reporting. 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.

### **Bank Reconciliations**

#### Auditors' Comment

We noted several instances in which the monthly bank reconciliation process was not completed and reviewed timely. An important element of internal control over cash is the reconciliation process which enables City staff to identify differences between the bank and general ledger balances and resolve such differences in a timely manner. This process helps to minimize the risk of misappropriation of cash. We recommend that the monthly bank reconciliation process be completed and reviewed on a timely basis.

#### Management's Response

Management acknowledges that the bank reconciliations during fiscal year 2010 - 2011 were not completed in a timely manner due to staff time being directed to a major payroll software conversion. This has been corrected as the payroll software conversion is complete and an accountant was hired who is responsible for preparing the bank reconciliations in a timely manner.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tustin, California'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management in a separate letter dated December 29, 2011.

The City of Tustin's response to the finding is identified above. We did not audit City of Tustin's response and, accordingly, we express no opinion on it.

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

*White Nelson Dick Evans LLP*

December 29, 2011  
Irvine, California