

CITY OF TUSTIN

Single Audit Report

June 30, 2009

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

CENTURY CITY

SAN DIEGO

The Honorable City Council
of the City of Tustin, California

**Independent Auditor's 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***

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 (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2010. 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

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 matters that we reported to management of the City in a separate letter dated February 24, 2010.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion in it

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

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

February 24, 2010



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The Honorable City Council
of the City of Tustin, California

**Independent Auditor's Report on Compliance with Requirements
Applicable to Its Major Program, Internal Control Over
Compliance and on the Schedule of Expenditures of Federal
Awards in Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of the City of Tustin with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Tustin's management. Our responsibility is to express an opinion on the City of Tustin's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Tustin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Tustin's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Tustin is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Tustin's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2009, and have issued our report thereon dated February 24, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

February 24, 2010

CITY OF TUSTIN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant	14.218	B-01-MC-06-0583	\$ 3,903
Community Development Block Grant	14.218	B-03-MC-06-0583	3,050
Community Development Block Grant	14.218	B-05-MC-06-0583	18,679
Community Development Block Grant	14.218	B-06-MC-06-0583	146
Community Development Block Grant	14.218	B-07-MC-06-0583	241,741
Community Development Block Grant	14.218	B-08-MC-06-0583	650,388
Total U.S. Department of Housing and Urban Development			<u>917,907</u>
<u>U.S. Department of Commerce</u>			
Passed through the City of Santa Ana:			
Public Safety Interoperable Comm (PSIC)	11.555	OES 059-65000	71,308
Total U.S. Department of Commerce			<u>71,308</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Click-It or Ticket Program	20.600	CT09 439	13,903
Alcohol and Traffic Safety and Drunk Driving Preventive Incentive Grant	20.601	SC09 439	10,612
RSTP Reg Surface Trans Program	20.205	STPL-5271(014)	39,499
Total U.S. Department of Transportation			<u>64,014</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,053,229</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF TUSTIN
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

(1) Reporting Entity

The City of Tustin for purposes of the Schedule of Expenditures of Federal Awards includes all funds of the primary government and its blended component units as defined by GASB Statement No. 14, *Financial Reporting Entity*.

(2) Basis of Accounting

The Schedule of Expenditures of Federal Awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF TUSTIN
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
• Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA No. 14.218	Community Development Block Grant
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

2009-01 Information Technology Policies and Procedures

Comment

We noted the following items as it related to information technology (IT) policy and procedures:

CITY OF TUSTIN
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2009

- IT personnel are not prohibited from initiating or authorizing transactions.
- IT personnel are not prohibited from initiating changes to master files and there are no other control procedures to monitor those changes.
- When changes are made to master files, the requesting department is not provided a report demonstrating the changes made.
- Lack of separation of duties between programmers, system administrators, and users.
- Programmers have access to applications in live operation, job control language, and live data files.
- Lack of procedures to prevent testing of new or revised applications on live data files.
- Passwords are not required to be changed at regular intervals.
- Logs are not maintained for administrator activities. With the absence of logs of administrator activities, supervisory personnel are unable to review for unusual entries.
- System administrators are not required to report system failures, restart and recovery, or other unusual incidents to appropriate supervisory personnel for review.
- Access to the Data Center is not limited to IT personnel only, causing a potential breach in physical security over the IT Data Center.

Recommendation

We recommend the City review its existing internal control policy and procedures specifically related to the above enumerated items related to information technology and formalize a comprehensive policy and procedures operation, which would include monitoring the adequacy and effectiveness of the internal control procedures established. This risk should be evaluated at least annually to consider any changes to the City's operating environments.

Management Response

Management (the Finance Director) is aware of these items regarding IT policy and procedures. An information technology firm was hired to do a more in-depth analysis of the City's IT infrastructure, network configuration and procedures. When that analysis is complete, recommendations from the items mentioned in this report and the analysis will be implemented unless is it financially prohibitive.

2009-02 Capital Asset Records

Comment

We noted that the City had difficulty in preparing the capital asset records during the fiscal year resulting from a lack of information and monitoring of certain ongoing capital improvement projects. The lack of information included whether the improvement projects were owned by the City and the funding source of the capital improvement projects. Several adjusting journal entries were required including a restatement of prior year net assets to properly account for the City's capital assets.

CITY OF TUSTIN
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2009

Recommendation

We recommend that the City develop and implement procedures to ensure that all improvement projects are properly identified and monitored to ensure that all of the City's capital related assets are accounted for properly.

Management Response

Management (the Finance Director) was aware of this problem and hired appropriate staff to correct the capital asset records while the audit was being completed. The Finance Department is currently implementing processes to prevent errors and ensure accountability regarding capital asset records.

Section III – Federal Award Findings and Questioned Costs

None

CITY OF TUSTIN
Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

Section I – Status of Prior Year’s Findings and Questioned Costs

None.