

Honorable Mayor and
Members of the City Council
of the City of Costa Mesa
Costa Mesa, California

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa, California (the City) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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. As discussed below, we identified a certain matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated November 30, 2016, on the financial statements of the City. Our comment and recommendation is intended to improve the internal control or result in other operating efficiencies. Our comment with our recommendation for improvement is summarized as follows:

Payroll

Auditors' Comment and Recommendation

The City's Human Resources/Payroll system requires all active employees to have their timecards approved by either the department director, manager or supervisor in order to process payroll each pay period. When an employee separates employment from the City, the department director is responsible for providing Human Resources with a Personal Action Form (PAF) to either retire or terminate the employee in the HR/Payroll system.

Payroll (Continued)

During the audit, we noted that four former part-time employees were still active in the Human Resources /Payroll system after they separated from the City; however, their timecards were still being approved for processing. This occurred over a period of two years before a PAF was submitted to Human Resources. We noted that none of the four former employees received any compensation after separation of employment from the City because the part-time employees are paid on a non-exception based system. Hours would need to be reported on the timecard in order to generate a pay check and no hours were reported. However, if this occurred with a full-time employee, a pay check would be generated because of the City's exception based time reporting.

We recommend that procedures be implemented to ensure PAF's are submitted to Human Resources immediately when employees separate from the City to prevent unauthorized payroll payments.

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

White Nelson Dick Evans LLP

Irvine, California
November 30, 2016