

The Honorable Mayor and
Members of City Council and
Management 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 (the City) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. We did identify deficiencies in internal control that we consider to be material weaknesses as noted in our letter dated December 26, 2013. However, other 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 December 26, 2013 on the financial statements of the City. Our comment and recommendation are intended to improve the internal control or result in other operating efficiencies. Our comment with our recommendation for improvement is summarized as follows:

Ethics Policy

Auditors' Comment

The City has in place a number of practices to communicate its expectation of ethical behavior to all employees through verbal communications, trainings, and by setting proper tone at the top. However, the City does not have a formalized ethics policy. A structured ethics policy establishes organizational standards for ethics, morals, and an overall "regard for the rules" philosophical approach within an entity. Specifically, matters such as honesty, integrity, compliance with laws and regulations, adherence to corporate policy, and upholding the City's high values and reputation should be addressed. In addition, the City's practices do not include a clearly communicated process for employees to report suspected fraud or other unethical conduct. A strong ethics policy is the foundation upon which an organization builds its culture, which should then permeate all levels of personnel and guide all business dealings and transactions. This can be most effective in establishing a highly ethical and antifraud culture within any organization. We recommend the City adopt a formal ethics policy.

Management's Response

The City agrees that a formalized ethics policy would be a good addition to the City's policies. The CEO will request the City Human Resources Department to draft an ethics policy for management review and Council adoption.

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
December 26, 2013