

December 10, 2009

Greg Franklin, Director of Administrative Services
City of Yucaipa
34272 Yucaipa Blvd.
Yucaipa, CA 92399-9950

Dear Mr. Franklin:

We have audited the financial statements of the City of Yucaipa (the "City") as of and for the year ended June 30, 2009, and have issued our report thereon dated December 10, 2009. In planning and performing our audit of the financial statements of the City for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We noted no matters involving the internal control and its operations that we considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted the following items of less significance which are presented for your consideration.

New Accounting Standards

In February 2009, the Governmental Accounting Standards Board ("GASB") issued its Statement No. 54 entitled "*Fund Balance Reporting and Governmental Fund Type Definitions*," which will significantly change the reporting of fund balances and governmental fund types. The City will be required to implement this Statement as of the 2010-11 fiscal year. We recommend the City to take steps to determine how this Statement will affect the City's financial statement presentation, and what action is necessary. The City may need to revise its chart of accounts and fund structure to comply with the new standard.

Fraud Prevention and Detection Program

As noted in the prior year, the City's governing board (City Council) and management staff are responsible for designing and implementing systems and procedures for the prevention and detection of fraud, and for ensuring a culture and environment that promotes honesty and ethical behavior. Fraud can range from minor employee theft and unproductive behavior to misappropriation of assets and fraudulent financial reporting.

The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties. Therefore, it is important to place a strong emphasis on fraud prevention in relation to the level of fraud risk, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals that they should not commit fraud because of the likelihood of detection and punishment. Moreover, prevention and deterrence measures are much less costly than the time and expense required for fraud detection and investigation.

While the City has taken steps to address the risk of fraud in certain areas, such as segregation of duties and other internal controls, we recommend the City consider taking a more formal, proactive approach to fraud

prevention and deterrence. This would involve establishing an ongoing program of formally identifying and measuring fraud risks, taking steps to mitigate identified risks, and implementing and monitoring any necessary preventive and deterrent measures.

For example, although the City provides training regarding ethics to management level employees, the City may want to establish a more formal training program for all employees regarding fraud. New employees should be trained at the time of hiring about the entity's values and its code of conduct. This training should explicitly cover expectations of all employees regarding (1) their duty to communicate certain matters; (2) a list of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and (3) information on how to communicate those matters. In addition to the training at the time of hiring, employees should receive refresher training periodically thereafter.

As mentioned above, management needs to provide information to employees on how to communicate fraud related matters. Research has shown that the majority of fraud is detected by fellow employees, and not by outside auditors or internal controls. It is important for the City to establish and communicate to employees a reporting system that is appropriate for the City. The City should consider establishing a confidential reporting mechanism, which may include an internal reporting system and/or an anonymous tip hotline, not only for employees, but also for vendors and customers of the City.

In summary, the City has established controls over fraud in many areas and, based on our experience, has set an appropriate "tone at the top" regarding ethical behavior. However, the City should consider a more formal, proactive approach to preventing fraud. The above comments do not address all components of a strong antifraud program. Additional information can be provided to the City's management regarding this issue.

Summation

We would like to take this opportunity to express our appreciation for the assistance extended us during the course of our audit. If you have any questions regarding our recommendations, please call our office. This letter is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

TEAMAN, RAMIREZ & SMITH, INC.



Greg W. Fankhanel
Certified Public Accountant