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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

City Council
City of Burbank
Burbank, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Burbank (the City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

Closing Out Capital Projects

Condition: Constructed capital assets had been put into use yet were still classified as construction in progress.

Criteria or specific requirement: An important element of internal controls over the reporting of capital assets is to identify constructed assets that have been put into use. Capital assets that have been put into use should be reclassified from construction in progress and depreciation started.

Effect: Within governmental funds of the financial statements there were improperly classified capital assets and depreciation expense was understated, which required a proposed audit entry to correct.

Cause: While having been put into use, project managers had a minor amount of work they desired to complete on the projects prior to closing them out.

Recommendation: We recommend that City management revisit its policies for closing out capital projects and communicate to project managers that reclassification from construction in progress must take place when a constructed asset is put into use.

Views of responsible officials and planned corrective actions: Financial Services staff will communicate to all project managers on a monthly basis to ensure that capital projects are closed in a timely manner. Additionally, Financial Services staff will update the current projects module training to further emphasize the importance of capitalizing assets as soon as they are put into use, and not waiting for final invoicing or lingering punch list items.

Recording of Contingent Gains

Condition: Accounts receivable and deferred revenue had been recorded based on the filing of an insurance claim. We were unable to conclude that the claim was realizable.

Criteria or specific requirement: An estimated gain from a contingency should not be recorded until it is realized or realizable.

Effect: Accounts receivable and deferred revenue were overstated.

Cause: The City's filing of a material insurance claim is infrequent in occurrence. As such, management was not aware of the proper accounting treatment for a claim filed yet not realized.

Recommendation: We recommend that City management research and consult on the accounting treatment for transitions that are out of the ordinary.

Views of responsible officials and planned corrective actions: The City agrees with the finding and the recommendation. However, it should be noted that the intent of this entry was to book an insurance recovery. The insurance company has agreed to pay for the repair and replacement costs and management provided an amount based on our engineers' estimates.

Recording of Unbilled Receivables

Condition: Street lighting in-lieu unbilled receivables had not been accrued for at year-end.

Criteria or specific requirement: Revenue that has been earned yet not yet billed should be accrued for.

Effect: Accounts receivable and street lighting in-lieu revenue were understated.

Cause: An analysis of account balances between the current year and the prior year was not conducted on the accounts receivable accounts in question.

Recommendation: We recommend that City management revisit its closing procedures and implement a formal review process of account balances, with those of the prior year, to determine if the current account balance meets management's expectations.

Views of responsible officials and planned corrective actions: Financial Services will create a master document of all monthly closing procedures and year end entries that need to be processed. This list will be reviewed monthly and at year end by a Finance Manager to ensure that no entries or procedures are missed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 financial statements. 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*.

City of Burbank's Response to Findings

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Irvine, California
November 23, 2021