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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 the City of Burbank (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 15, 2023.

### **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 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 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 in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

### **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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Irvine California  
February 15, 2023

**City of Burbank**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2022**

**2022– 001**

**Type of Finding:** Significant Deficiency in Internal Control over Financial Reporting

**Condition:** During our audit material audit adjustments were required to adjust capital assets of approximately \$2,557,000 by reclassifying them out of construction in progress for the Street Lighting Fund, derivative instruments were adjusted by approximately \$2,020,000 for the Electric Utility Fund, prepaid expenses of approximately \$812,000 that were also accrued to accounts payable were reversed across multiple funds, and deposits of approximately \$2,295,000 were either recognized as revenue or reclassified to accounts payable across the utility funds.

**Criteria or specific requirement:** The City is required to produce financial statements that are free of material misstatements.

**Effect:** Prior to audit adjustments being recorded, the City's financial statements were materially misstated.

**Cause:** Due to turnover among the Financial Services and Utility Finance staff, and strain on staffing due to the City's late implementation of Governmental Accounting Standards Board (GASB Statement) No. 87, *Leases*, the City's internal controls over financial statement close and reporting did not operate as designed.

**Recommendation:** We recommend that the City review its internal control procedures over financial statement close and reporting to ensure that they operate as designed.

**Views of responsible officials and planned corrective actions:**

Staff agrees with the adjustment to capital assets of approximately \$2,557,000 and deposits of approximately \$2,295,000. Staff recognizes a timing issue related to closing projects. Both the City and Utility Finance Divisions have had a resource issue which will be rectified as vacant positions are filled. The Utility is committed to booking its transactions correctly and will modify its practice to include more frequent reviews of active projects to improve the timeliness of capitalization and billing and to eliminate auditor proposed journal entries moving forward.

Staff agrees with the adjustment to derivative instrument of approximately \$2,020,000. The Utility is committed to booking its transactions correctly and will defer to subject matter expert guidance on new GASBs and these types of transactions to eliminate auditor proposed journal entries moving forward.

Staff agrees with the \$812,000 adjustment, which was necessary to accommodate invoices with services that crossed fiscal years. The City's Oracle AP System can only handle this situation manually, leaving these transactions susceptible to errors. An AP automation project is currently underway which will create a computerized process to prorate these types of invoices and allocate the expenses to the correct fiscal years, eliminating the need for manual adjustments.

**2022– 002**

**Type of Finding:** Significant Deficiency in Internal Control over Financial Reporting

**Condition:** During our review of the City's Schedule of Expenditures of Federal Awards (SEFA), we noted that expenditures totaling approximately \$2,018,000 were omitted from the schedule.

**Criteria or specific requirement:** The City is required to produce financial statements that are free of material misstatements.

**Effect:** Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) expenditures reported on the SEFA were understated.

**Cause:** While expenditures related to the City's metropolitan city allocation of funding under the American Rescue Plan Act (ARPA) was properly included on the SEFA, funding received as a passthrough from the State of California for the purpose of providing utility assistance customers was not properly identified as a passthrough of ARPA funds.

**Recommendation:** We recommend that for all new grants received, the City research and inquire of the granting agency whether the funding is federally sourced.

**Views of responsible officials and planned corrective actions:**

The California Arrearage Payment Program dedicated federal American Rescue Plan Act funding to address Californian's energy debts. Because the funds were coming from the State, staff mistakenly believed that these were state funds instead of federal funds and therefore inadvertently left them off the SEFA. It was not explicit that these were federal funds being passed through the state. Moving forward, staff will do a more diligent job in researching and understanding the original funding source of all grants.