



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

To the Honorable Mayor and Members of the City Council
City of 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, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 8, 2025.

Report on 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2024-001 that we consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.



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City'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 and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other 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.

LSL, LLP

Irvine, California
January 8, 2025



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SCHEDULE OF FINDINGS AND RESPONSES

Reference Number

2024-001

Evaluation of Finding

Material Weakness

Criteria: Management is responsible for the preparation and fair presentation, as well as the accuracy, of its financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. This includes proper recording of revenue related to grants in accordance with GASB Statement No. 33.

Condition: As a result of our audit procedures over grants, unearned revenue and deferred revenue, a correcting entry was required to adjust total grant revenue recognized during the fiscal year.

Cause of Condition: The City did not have adequate internal controls for communications between departments to ensure grant revenues were appropriately recognized under U.S. Generally Accepted Accounting Principles (GAAP). This led to grant funding recognized as revenue before it was earned per U.S. GAAP. In addition, grant revenues were recognized for funds not received within the availability period defined under Generally Accepted Governmental Accounting Principles.

Effect or Potential Effect of Condition:

Public Improvements – Development Impact Fees Fund

- Overstatement of revenue and understatement of unavailable revenue by \$1,710,000.

General City Capital Fund

- Overstatement of revenue and understatement of unavailable revenue by \$2,333,573.
- Overstatement of revenue and understatement of unearned revenue by \$4,974,948.

Recommendation: We recommend that the City implement internal controls over grant reimbursement oversight and perform a thorough review of subsequent cash receipts to ensure revenue is recorded in the period where services are performed and earned.

Client Response: The City acknowledges the importance of proper grant and revenue recognition and procedures that provide appropriate internal controls for recording revenues. A decentralized revenue function along with a fair amount of turnover across City departments in recent years has highlighted the need for stronger internal controls as well as enhanced documentation and training for City staff. As such, Financial Services staff has already been working on revisions to the City's Grants Administrative Procedure (AP) as part of the department's work program for the 2024-25 fiscal year. The new AP will include a quarterly interactive review process which will assist all staff in recording these transactions accurately, as well as mandated training for Finance staff and department personnel who manage grants. Staff expects that the fully revised AP will be adopted and implemented prior to the end of the current fiscal year.