

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, California (the City), as of and for the year ended June 30, 2014, 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 24, 2014.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. 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. We consider the deficiency described below to be a material weakness.

Recording of Unusual Transactions

Auditor's Comment

The Public Financing Authority had previously issued the 2003 Series A Revenue Bonds and 2007 Series A Revenue Bonds. These bonds are secured by pledged bonds (1993 Series A Golden State Tax Allocation Bonds, 1993 Subordinate Bonds, 1993 Series A City Centre Tax Allocation Bonds and 2003 Series A Tax Allocation Bonds) issued by the former redevelopment agency. As a result of our audit procedures, we noted the following misstatements:

- In 2011, the 2007 Series A Revenue Bonds were incorrectly transferred from the Public Financing Authority Fund to the former redevelopment agency fund
- In 2003, the City did not correctly account for the investments in pledged bonds, which resulted in the understatement of investments in pledged bonds
- In 2007, the 2003 Subordinate bonds were incorrectly removed from the former redevelopment agency fund.

The above misstatements resulted in a restatement of the net position of the governmental activities and business-type activities, the fund balance of the Public Financing Authority Debt Service Fund, the net position of the Electric Utility Enterprise Fund and the net position of the Successor Agency Private Purpose Trust Fund at July 1, 2013.

We recommend that the City implement procedures and processes to document unusual and/or significant transactions. Detailed documentation for unusual and/or significant transactions should be required and should include a conclusion on how such transactions are to be recorded and disclosed in the financial statements. In addition, the transactions should be reviewed and approved by an appropriate city employee before they are recorded.

Management's Response

Management has current procedures in place to note significant transactions that take place during the year in order to fully review and discuss the proper recording with the City Auditors. The review of this bond was initiated not only through regular audit procedures but through Management's disclosure of the purchase of pledged bonds which occurred during the fiscal year. Management is strongly committed to providing accurate and reliable financial statements. Management's current practice is to note all significant transactions and confirm the appropriate accounting treatment with the auditors. Management will review this established procedure with all accounting personnel to help insure compliance in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. 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 the Finding

City of Burbank's response to the findings is described above. City of Burbank's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

In addition, we noted other matters involving internal control and its operation that we have reported to management of the City Burbank in a separate letter dated November 24, 2014.

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.

White Nelson Dickl Evers LLP

Irvine, California
November 24, 2014