

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, 2015, 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 11, 2016.

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.

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. However, we did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Recording of Unusual Transactions

Auditor's Comments

Due to Successor Agency

Management proposed an entry to restate the fund balance of the Public Financing Authority Fund (PFA fund) to record a liability due to Successor Agency. The liability is for cash that accumulated over the years starting from fiscal year ended June 30, 2003. Per our review of the available City records we noted the accumulation of cash in the PFA fund since fiscal year 2003 was due to the following:

- The journal entries to record the debt service payments on the PFA 2007 Series A Revenue Bonds (Bonds) were not done correctly. The cash account of the PFA fund was erroneously increased while cash of the former redevelopment agency (RDA) and Successor Agency was erroneously decreased in recording the debt service payments on the Bonds.
- Cash transferred to the PFA fund for the payment of the PFA 2003 Series A and Series C Revenue Bonds were never used. The unused cash should have been returned to the former redevelopment agency.
- Surplus cash (excess of cash received from the former RDA pledged 2003 City Centre Tax Allocation Bonds debt service payments over PFA 2003 Series C Bonds debt service payments) distributed by the bond trustee to the City were deposited into the PFA fund instead of the former redevelopment agency and Successor Agency.

Capital Assets

The City recorded a significant current year deletion in land. Per further inquiry, we noted that the deletion was for land that was returned to Successor Agency by the City in fiscal year 2012-2013. When the land was transferred back to the Successor Agency in fiscal year 2013, the value of the land transferred was based on the market value of the land in fiscal year 2012-2013 which was different than the cost to acquire the land. Under generally accepted accounting principles, the difference between the cost and market value should have been recorded as an expenditure in fiscal year 2012-2013 when the land was transferred to the Successor Agency. As a result, the current beginning balance of the net position on the government-wide statement was restated to record the transaction in the appropriate period.

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.

Recording of Unusual Transactions (Continued)

Management's Responses

Due to Successor Agency

In FY 2014-15 the City was involved in a significant transaction regarding the refunding of former redevelopment debt. This significant transaction led Management to review all remaining PFA bond balances which led to the discovery of this error. Management was not able to find documentation of any guidance on the appropriate accounting that should have been established in 2003 and again in 2007, so we cannot comment on how or why this accounting treatment was implemented. Management reviewed the issue with great diligence involving both legal Counsel as well as the City's auditors and management concurs that these funds previously held by the PFA for debt service relate specifically to former redevelopment agency debt and should therefore be turned over to the Successor Agency consistent with the prevailing redevelopment elimination law.

Capital Assets

This significant transaction was identified by Management however the entry to record the transfer was erroneous as noted by the auditors. Management has met with the fixed asset finance group to discuss improvements to the fixed asset recording process that will ensure accurate and timely recording of fixed asset transfers, additions and deletions.

Deficit Fund Balance

Auditor's Comment

During our testing of accounts receivables, we noted two invoices which were accrued and revenue was recorded to eliminate fund deficits in the Tieton Hydro Special Revenue Fund and the Magnolia Power Plant Special Revenue Fund (funds). The invoices were related to revenues for a billing period that was for the next fiscal year. The accrual was subsequently reversed which reduced the receivable balance and revenues recorded in the funds. These funds are used to account for the operations of the Tieton Hydro and Magnolia Power Plant, for which the City acts as the operating agent. Per our discussion with management, expenditures of the funds are reimbursed and billed to participants. Therefore, these funds should not have deficit fund balances. We recommend that the City analyze these two funds and bill the participants for expenditures not reimbursed, if appropriate.

Management's Response

On a monthly basis, BWP receives advanced funding from SCPPA to pay for expenditures. The amount of the advanced funding is the annual budget divided by 12. Since the advanced funding is an average, it is possible (although rare) that actual expenditures exceed the advanced funding. In the event actual expenditures exceed the advanced funding, BWP receives the difference from SCPPA in the following month. BWP will evaluate if the monthly advanced funding from SCPPA should be increased.

Electric Utility Users Tax

Auditor's Comment

The City charges a utility users tax to customers for using electricity in the City. The tax charged is at the rate of seven percent of the charges made for such electricity and for any supplemental services or other activities directly related and/or necessary for the provision of electricity to the end user. During our testing of electric utility rates billing, we noted that the City is not charging utility users tax on late fees and other charges which are considered supplemental services. We recommend that City establish procedures that will ensure that utility users tax are charges on all applicable electric service charges.

Management's Response

BWP will establish procedures to collect UTT on supplemental services, late fees and other applicable charges.

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 Responses to the Findings

City of Burbank's responses to the findings are described above. City of Burbank'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.

White Nelson Dick Evans LLP

Irvine, California
January 11, 2016