

CITY OF BURBANK, CALIFORNIA
SINGLE AUDIT OF FEDERAL AWARDS
JUNE 30, 2015

CITY OF BURBANK, CALIFORNIA

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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, 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 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.

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 did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Numbers 2015-001 through 2015-003 that we consider to be a 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 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's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.

White Nelson Dick Evans LLP

Irvine, California
January 11, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

City Council
City of Burbank
Burbank, California

Report on Compliance for Each Major Federal Program

We have audited the City of Burbank's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited 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, 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. We issued our report thereon dated January 11, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

White Nelson Nick Evans LLP

Irvine, California

January 11, 2016

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

CITY OF BURBANK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

| Federal Grantor / Pass - Through Grantor / Program | Catalog of Federal Assistance Number | Program Identification Number | Federal Expenditures | Disbursement to Subrecipient |
|--|---|-------------------------------------|-------------------------|------------------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | | |
| Direct Programs: | | | | |
| Community Development Block Grants - Entitlement Grant | 14.218 | B-14-MC-06-0513 | \$ 1,023,413 | \$ - |
| HOME Investment Partnerships Program | 14.239 | M-14-MC-06-0504 | 105,805 | - |
| Section 8 - Housing Assistance - Voucher Program | 14.871 | CA105VO | 8,954,653 | - |
| Total U.S. Department of Housing and Urban Development | | | <u>10,083,871</u> | <u>-</u> |
| <u>U.S. Department of Justice</u> | | | | |
| Direct Programs: | | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2014 | 17,896 | - |
| <u>U.S. Department of Labor</u> | | | | |
| Passed through the State of California Employment Development Department: | | | | |
| Local Workforce Investment Area | 17.258 | Catalog 417260 | 105,413 | - |
| <u>U.S. Department of Transportation</u> | | | | |
| Passed through State of California Department of Transportation: | | | | |
| Highway Planning and Construction | 20.205 | | | |
| Phase II of Burbank Channel Bikeway Path | | CML-2500(046) | 71,840 | |
| Buena Vista/Vanowen RR Crossing | | STPLH 5200(021) | 3,923 | - |
| Passed through State of California Office of Traffic Safety: | | | | |
| State and Community Highway Safety | 20.600 | PT1574 | 40,308 | - |
| Total U.S. Department of Transportation | | | <u>116,071</u> | <u>-</u> |

(Continued)

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF BURBANK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2015

| Federal Grantor / Pass - Through Grantor / Program | Catalog of Federal Domestic Assistance Number | Program Identification Number | Federal Expenditures | Disbursement to Subrecipient |
|---|---|-------------------------------------|-------------------------|------------------------------------|
| <u>U.S. Department of Health and Human Services</u> | | | | |
| Passed through the Los Angeles County Area Agency on Aging - Special Programs for the Aging: Aging Cluster: | | | | |
| Title III, Part B - Grants for supportive services and senior centers | 93.044 | ENP-1216-003 | \$ 221 | \$ - |
| Title III, Part C1-Congregate Nutrition | 93.045 | ENP-1216-003 | 127,547 | - |
| Title III, Part C2-Home Delivered Meals | | ENP-1216-003 | 142,505 | - |
| | | | <u>270,052</u> | <u>-</u> |
| Nutrition Services Incentive | 93.053 | ENP-1216-003 | 40,860 | - |
| Total U.S. Department of Health and Human Services | | | <u>311,133</u> | <u>-</u> |
| <u>Corporation for National and Community Service</u> | | | | |
| Direct Program: | | | | |
| Retired Senior and Volunteer Program | 94.002 | 440P034/19 | 45,493 | - |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Passed through the City of Los Angeles: | | | | |
| Urban Area Security Initiative (UASI) 2013 | 97.067 | UASI 13 - C124030 | 25,017 | - |
| Urban Area Security Initiative (UASI) 2012 | 97.067 | UASI 12 - C122010 | 549,051 | - |
| | | | <u>574,068</u> | <u>-</u> |
| State Homeland Security Grant (SHSGP) 2013 | 97.067 | 2012-2013 | 35,618 | - |
| Total U.S. Department of Homeland Security | | | <u>609,686</u> | <u>-</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 11,289,563</u> | <u>\$ -</u> |

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF BURBANK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Burbank (the City). The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the City is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in the Note 1 of the notes to the City's financial statements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying schedule agree with amounts reported in federal financial reports.

5. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF BURBANK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2015

6. FEDERALLY FUNDED LOANS:

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

| <u>Federal Programs</u> | <u>Loans Expended During the Year Ended June 30, 2015</u> | | <u>Loans Outstanding as of June 30, 2015</u> | |
|--|---|---|--|-----------|
| Community Development Block Grant CFDA #14.218 | \$ | - | \$ | 2,524,752 |
| HOME Investment Partnership Program CFDA #14.239 | \$ | - | \$ | 9,648,070 |

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

1. Summary of Auditors' Results:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified? yes none reported
See finding numbers 2015-001 to 2015-003

Noncompliance material to financial statements noted: yes no

Federal Awards:

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

yes no

Identification of major programs:

CFDA Number

93.044, 93.045, 93.053

Name of Federal Program or Cluster

Aging Cluster, Title II, Part P - Grants for supportive services and senior centers, Title III, Part C1 - Congregate nutrition, Title III, Part C2 - Home delivered meals
Section 8 - Housing Assistance - Voucher Program

14.871

Dollar threshold used to distinguish between type A and type B programs:

\$ 338,687

Auditee qualified as low-risk auditee?

yes no

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES

Finding Number 2015-001 – Recording of Unusual Transactions

Condition

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 the Successor Agency. The liability is for cash that accumulated over the years starting from fiscal year ended June 30, 2003 in the PFA Fund. 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.
- Cash transferred to the PFA fund for the payment of the PFA 2003 Series A and Series C Revenue Bonds were never used.
- 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.

Criteria

The City is required to produce financial statements that are free of material misstatements.

Cause

The City did not have a thorough understanding of the unusual transactions.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-001 – Recording of Unusual Transactions (Continued)

Effect

Due to Successor Agency

The cash account of the PFA fund was overstated while cash of the former redevelopment agency and Successor Agency was understated in recording the debt service payments on the Bonds.

Capital Assets

The current beginning balance of the net position on the government-wide statement was restated to record the transaction in the appropriate period.

Recommendation

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

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.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-001 – Recording of Unusual Transactions (Continued)

Management's Response (Continued)

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.

Finding Number 2015-002 – Deficit Fund Balance

Condition

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.

Criteria

Expenditures of the funds are reimbursed and billed to participants. Therefore, these funds should not have deficit fund balances.

Cause

Expenditures may not have been appropriately identified and billed timely.

Effect

The funds have deficit fund balances.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-002 – Deficit Fund Balance (Continued)

Recommendation

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.

Finding Number 2015-003 – Electric Utility Users Tax

Condition

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.

Criteria

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.

Cause

The City did not properly identify the supplemental services for billing utility users tax.

Effect

Utility users tax for supplemental services have been under billed.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-003 – Electric Utility Users Tax (Continued)

Recommendation

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.

3. FINDINGS AND QUESTIONED COSTS RELATING TO MAJOR FEDERAL AWARDS:

None noted.

CITY OF BURBANK

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2015

There were no prior audit findings relative to federal award programs to report.