

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, 2016, 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 23, 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.

Construction in Progress

Auditor's Comment

During our review of construction in progress for the Electric Utility and Water Utility Enterprise Funds, we identified certain projects that were completed and placed in service; however, the assets values have not been transferred from construction in progress to the appropriate capital asset class. An important part of financial reporting is ensuring the accuracy of capital asset classifications. We recommend that the City review the status of projects included in construction in progress account throughout the year. As these projects are completed, the assets should be transferred to the appropriate capital asset category.

Management's Response

Burbank Water and Power will modify the utility's existing capitalization policy to include more frequent reviews of construction in progress projects to reduce the incidence of untimely capitalization.

Deposits Liabilities

Auditor's Comments

During our review of deposits liabilities, we noted several items that have been outstanding for more than two years. We inquired with management as to the status of these old items. As a result of our inquiry, adjustments of approximately \$1,120,000 and \$360,000 were made to reduce deposits liability in Electric Utility and Water Utility Enterprise Funds, respectively. In addition, management determined some items that should have been recognized to revenue or refunded. Management has represented that these will be done in fiscal year 2016-2017. We recommend that City review outstanding deposits periodically to determine the status of the deposits.

Management's Responses

The Management of the Electric and Water Funds will improve procedures and processes related to reviewing outstanding deposits. Regarding the aforementioned adjustments of \$1,120,000 and \$360,000, the Management of the Electric and Water Funds note that: (1) The Electric Fund's favorable revenue adjustment for \$1,120,000 is directly associated with a customer deposit on a large Aid-in-Construction project that was placed in service after June 30, 2016. Generally the utility capitalizes, bills, applies deposits, and recognizes revenue for Aid-in-Construction projects when: (a) they are placed in service, and (b) it has ensured all associated project costs have been recorded. (2) The Water Fund's favorable revenue adjustment for \$360,000 is directly associated with a customer deposit on a large Aid-in-Construction project that was placed in service in June of 2016; in this case improving the procedures and processes related to placing an asset in service would have indicated accruing Aid-in-Construction revenue was appropriate at year-end.

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
November 23, 2016