

CITY OF BURBANK, CALIFORNIA
SINGLE AUDIT OF FEDERAL AWARDS
JUNE 30, 2016

CITY OF BURBANK

TABLE OF CONTENTS

June 30, 2016

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards	3 - 5
Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs:	
Schedule of Expenditures of Federal Awards	6 - 7
Notes to Schedule of Expenditures of Federal Awards	8 - 9
Schedule of Findings and Questioned Costs	10 - 13
Summary Schedule of Prior Audit Findings	14

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 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 2016-001 and 2016-002, 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
November 23, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE 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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 23, 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 the Uniform Guidance 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 Diehl Evans LLP

Irvine, California
November 23, 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, 2016

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 Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grants - Entitlement Grant	14.218	B-15-MC-06-0513	\$ 532,808	\$ -
HOME Investment Partnerships Program	14.239	M-15-MC-06-0504	508,048	-
Section 8 - Housing Assistance - Voucher Program	14.871	CA105VO	<u>8,898,147</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>9,939,003</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Programs:				
Equitable Sharing Program	16.922	CA0191200	180,340	-
Passed through the Bureau of Justice Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0220	14,685	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2015-MO-BX-0008	<u>4,843</u>	<u>-</u>
Total U.S. Department of Justice			<u>199,868</u>	<u>-</u>
<u>U.S. Department of Labor</u>				
Passed through the State of California Employment Development Department:				
Local Workforce Investment Area	17.258	Catalog 417260	<u>104,378</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction Phase II of Burbank Channel Bikeway Path Cycle #3 – Verdugo at Parish and Keystone	20.205	CML-2500(046) HSIPL 5200(038)	73,286	-
			<u>123,997</u>	<u>-</u>
Total U.S. Department of Transportation			<u>197,283</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, 2016

Federal Grantor / Pass-Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursement to Subrecipient
<u>National Highway Traffic Safety Administration (NHTSA)</u>				
Passed through the California Office of Traffic and Safety:				
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PP1574	\$ 25,902	\$ -
<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	131	-
Title III, Part C1-Congregate Nutrition	93.045	ENP-1216-003	121,632	-
Title III, Part C2-Home Delivered Meals		ENP-1216-003	137,296	-
			<u>258,928</u>	<u>-</u>
Total Aging Cluster			259,059	-
Nutrition Services Incentive	93.053	ENP-1216-003	39,361	-
Total U.S. Department of Health and Human Services			<u>298,420</u>	<u>-</u>
<u>Corporation for National and Community Service</u>				
Direct Program:				
Retired Senior and Volunteer Program	94.002	440P034/19	35,342	-
<u>U.S. Department of Homeland Security</u>				
Passed through the City of Los Angeles:				
Urban Area Security Initiative (UASI) 2014	97.067	UASI 14 - C-125459	356,229	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 11,156,425</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, 2016

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Burbank (the City) under programs of the federal government, as well as federal financial assistance passed through other government agencies for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which are described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

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

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

6. 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, 2016

7. 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, 2016</u>		<u>Loans Outstanding as of June 30, 2016</u>	
Community Development Block Grant CFDA #14.218	\$	-	\$	2,555,735
HOME Investment Partnership Program CFDA #14.239	\$	-	\$	9,702,723

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES

Finding Number 2016-001 – Closing Completed Projects

Condition

Certain projects that were completed and placed in service have not been transferred from construction in progress to the appropriate capital asset class.

Criteria

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

Cause

The City did not properly identify completed projects for capitalization at the time of completion.

Effect

Construction in progress was overstated and buildings were understated at year-end.

Recommendation

We recommend that the City review the status of projects included in the 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.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2016-002 – Deposits Liabilities

Condition

Balance of deposits liabilities included items outstanding for more than two years.

Criteria

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

Cause

A review of deposits liabilities is not performed on a regular basis.

Effect

An adjustment of approximately \$1,120,000 and \$360,000 was made to reduce deposits liabilities in the Electric Utility and Water Utility Enterprise Funds.

Recommendation

We recommend that the City review outstanding deposits periodically to determine the status of the deposits.

Management's Response

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.

CITY OF BURBANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

3. FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARDS PROGRAMS:

None noted.

CITY OF BURBANK

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

SIGNIFICANT DEFICIENCIES

Finding Number 2015-001

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 that 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 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 was 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 the 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 from 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.

CITY OF BURBANK

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(CONTINUED)

For the year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

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.

Current Status

No similar finding was noted in the 2016 audit.

Finding Number 2015-002

Condition

During our testing of accounts receivables, we noted two invoices that 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.

Recommendation

We recommend that the City analyze these two funds and bill the participants for expenditures not reimbursed, if appropriate.

Current Status

No similar finding was noted in the 2016 audit.

CITY OF BURBANK

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
(CONTINUED)

For the year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2015-003

Condition

During our testing of electric utility rates billing, we noted that the City is not charging utility users a tax on late fees and other charges that are considered supplemental services.

Recommendation

We recommend that the City establish procedures that will ensure that utility users' taxes are charged on all applicable electric service charges.

Current Status

No similar finding was noted in the 2016 audit.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD PROGRAMS

There were no findings or questioned costs related to major federal award programs reported for the year ended June 30, 2015.