



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*

To the Honorable Mayor and Members of the City Council
City of San Marino, 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, each major fund, and the aggregate remaining fund information of the City of San Marino, California, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2018.

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 opinions 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the following deficiency to be a material weakness:

Investigate Unreconciled Amounts in the Main Checking Account

Monthly bank account reconciliations are the primary internal control procedure relating to the City's cash accounts. During fiscal year 2017/18, bank account reconciliations were prepared, however, the accounts were not completely reconciled. As of June 30, 2018, there was an unreconciled amount of \$16,658 in the main checking account. The impact of carrying unreconciled differences could materially impact the operating statement and balance sheet. Unreconciled amounts should be investigated and not be allowed to carry over from month to month.





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Management's View and Corrective Action

Moving forward, the City has established new controls in place to ensure that all bank accounts are reconciled, and any outstanding items are investigated to ensure any differences are due to timing issues which can be traced to subsequent bank statements.

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 following deficiency to be a significant deficiency:

Reconcile Accounts Receivable Periodically

The subsidiary ledger of accounts receivable for miscellaneous billings has not been reconciled to the general ledger. Such a reconciliation is a primary means of preventing or detecting an error or fraud in accounts receivable for miscellaneous billings. We recommend that a reconciliation of the detail to the accounts receivable control be made at the end of each month and that any reconciling items be investigated and cleared promptly. The controller should then review the reconciliation and satisfy himself that it is proper.

Management's View and Corrective Action

As part of the accounting software upgrade scheduled for the fiscal year ended June 30, 2019, the City is considering various module upgrades related to fixed assets and accounts receivable based on functionality and cost. The City is looking into various options to help ensure billings and fixed assets are tracked as well as prevent or detect errors or fraud. This will also allow management to investigate any reconciling items promptly.

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 Response to Findings

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



CPAs AND ADVISORS

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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.

Lance, Soll & Lughard, LLP

Brea, California
December 3, 2018