

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, 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 November 30, 2015.

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 deficiencies to be material weaknesses:

2015-001: Budget in Accounting System

During our test work of the budget, we noted there were a number of accounts for which the original budget that was uploaded into the accounting system did not agree to the City Council adopted budget. The presence of the correct budget in the accounting system is crucial as many departments rely on the budget-to-actual reports generated to make financial and operating decisions.

Recommendation: We recommend the City of San Marino prepare written instructions to be included as a part of the City's accounting policies and procedures manual that defines the procedures for budget input and review to ensure the correct adopted budget is entered into the accounting system.



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2015-002: Accounts Payable Accrual

During our test work of accounts payable, we noted one invoice for All American Asphalt in the amount of \$73,432 which related to fiscal year 2014-15 was not properly recognized as a liability in the prior fiscal year. This occurred because this invoice was received after the City's cut-off date for payables.

Recommendation: Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure that all items which relate to the prior fiscal year are appropriately recorded. Towards that end, we recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

2015-003: Accrued Payroll Misstatement

During our payroll accrual recalculation, we noted the City of San Marino over accrued in the amount of \$112,565 for fiscal year ended June 30, 2015. Proper cutoff is critical for accuracy of the accrual basis of accounting.

Recommendation: We recommend the City of San Marino prepare written instructions to be included as a part of the City's accounting policies and procedures manual that indicates basic concepts of proper cutoffs and the individuals responsible for accruing payables and payroll at year-end.

2015-004: Accounting Treatment of Prepaid Expenses

During our test work of prepaid expenses, we noted incorrect accounting treatment regarding the reversal of prepaid expenses related to maintenance fees paid to the City of West Covina. The result was an overstatement of expenditures and accounts payable in the amount of \$174,622.

Recommendation: We recommend the City of San Marino prepare written instructions to be included as a part of the City's accounting policies and procedures manual that indicates basic concepts of the reversal of prepaid expenses.

2015-005: Grants Reconciliation

During the course of the audit we identified grant activity related to unavailable revenue balances that required adjustment in the amount of \$173,378. The City is responsible for reviewing their grant agreements to determine if a grant revenue, unearned revenue or unavailable revenue should be recorded. The finance department serves as a centralized unit to train and provide guidance to the City departments on the importance of identifying federal expenditures and ensuring all federal grant expenditures and revenues are reported correctly on the general ledger. Each department is responsible to report federal award expenditures by the City's specified deadlines.

Recommendation: We recommend the City develop and implement a comprehensive policy and procedures to create list of grants to track all expenditures and revenues and properly record the grant revenues in accordance with the City's revenue recognition period.

Management Response: The City booked receivables for these grants as "due from other governments". The City is aware that after 90 days these receivables need to be reclassified to deferred revenues and this was done so during September (within the 90 day limit).



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2015-006: Interfund Activity

During the course of the audit, we identified and corrected a journal entry relating to interfund activity that caused transfers in and out to not reconcile within the City in the amount of \$166,402.

Recommendation: We recommend the City of San Marino prepare written instructions to be included as a part of the City's year-end accounting policies and procedures manual that indicates basic concepts of interfund activity.

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 deficiencies to be significant deficiencies:

2015-007: Fund Balance Adjusting Entry

During our test work of fund balance, an adjusting journal entry in the amount of \$20,060 to agree the General Fund's beginning fund balance to the prior year ending balance was recorded.

Recommendation: We recommend the City tie out prior year's ending fund balance per the financial statements to current year's opening balance on the City's general ledger system.

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 Finding 2015-005 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. The City did not provide responses to the other findings identified in our audit.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Brea, California
November 30, 2015