



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, 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 January 17, 2017.

**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:

**2016-001: Internal Controls over Payroll and Grants**

During our testwork, it was noted that there were deficiencies over payroll and grant management.

- A clearing fund was setup for payroll and its related liabilities (Fund 102) and had accumulated errors from prior years. These accumulated errors caused the miscalculation of the accrued payroll liability as of June 30, 2016, which required an adjustment of \$219,783.





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- During the course of the audit, we identified grant activity related to County Park Bond Fund that required an adjustment of \$47,697. The City should have proper procedures in place to review their grant agreement and determine if a grant revenue, unearned revenue or unavailable revenue should be recorded when it is receivable.

*Recommendation: We recommend the City of San Marino to strengthen its internal control over payroll and grant management. Formal written policy and procedures are recommended for the purpose of defining the personnel roles and responsibilities in handling these functions. In addition, we recommend that the City, to centralize its grant management function, consider hiring a grant analyst to monitor the compliance, expenditures, and reporting, and to recognize revenues in the proper periods in accordance with the City's revenue recognition policy and GASB 33.*

**City Response:** We concur with the auditors regarding these matters. During fiscal year 2016-17, the new finance team has implemented new procedures to strengthen the internal control over both the payroll and grant management systems. For payroll, the City's Principal Accountant reconciles the payroll clearing fund, identifies differences, and makes necessary corrections in a timely manner. In addition, internal audit on the payroll function will be performed on a quarterly basis and further strengthen the internal controls over payroll system. Regarding the County Park Bond grant, this is an isolated issue and there is no net impact to the financial condition since this is only a balance sheet adjustment. The finance department will serve as a centralized unit to train and provide guidance to the City departments on the importance of identifying grant expenditures and ensuring all grant expenditures and revenues are reported correctly on the general ledger.

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:

#### **2016-002: Journal Entry System**

During our test work of journal entries, we noted there a number of entries without proper approvals and supporting documentation. The presence of effective processes over journal entries is crucial to ensure financial statements are complete and properly supported.

*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 procedures for reviewing journal entries to ensure all entries are complete and properly supported prior to posting in the general ledger system.*

**City Response:** We concur with the auditors regarding this matter. During fiscal year 2015-16, journal entries were not supported by properly documentation and due to the limitation of accounting personnel within Finance Department, review process was ineffective. Effective July 1, 2016, all journal entries are prepared by Principal Accountant, supported by proper documentation, and reviewed and approved by Finance Director, prior to posting to the general ledger system



CPAs AND ADVISORS

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### **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.

### **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.

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

Brea, California  
January 17, 2017