



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 Brea, 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 Brea, 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 February 17, 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 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:

Accounts Receivable

During our audit testwork of the City's accounts receivable balances, we noted that the Water Utility Fund was improperly reconciled at June 30, 2015. Per further investigation, we noted that due to clerical error the accounts receivable balance was adjusted by the wrong amount for the unbilled water receivable account. The balance was subsequently corrected by \$376,367. We recommend that documentation supporting all adjustments be properly reviewed by a supervisor to ensure that the correct amount is recorded.



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Management's Response:

At year-end, the City calculates the portion of the water charges billed in July that were applicable to usage that occurred in June. For June 30, 2015, this amount was calculated correctly; however, City staff inadvertently recorded the total billing for July 2015 as opposed to the portion applicable to the June 2015 usage in the City's general ledger. Since the dollar amount was above a certain level, this is required to be reported as a material weakness as opposed to a lesser significant deficiency. In the future, the documentation providing the calculation will highlight the amounts to be recorded at year-end. Additionally, the total receivable amount will be reviewed for reasonableness based on the current rates as opposed to the prior year water rates.

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:

Purchasing Policy

During our review of the City's internal controls, we selected a transaction for the purchase of HP desktop and notebook computers. This transaction properly went through the bidding process through Bid No. FB 14-6 and selected the lowest bid. However, because this transaction was over \$25,000 the purchasing policy under 4.20 section 4.9 states, "If formal bidding procedures are required or if the item is a capital purchase over \$25,000, a recommendation for award of bid is sent to the requesting department and to the City Council for approval." We noted that the city is not receiving council approval for purchases over \$25,000, as specified in the purchasing policy. The current purchasing policy is dated 1987. Due to the date of the current policy we recommend a formal review of the City's purchasing policy for any changes to the policy. A formal review of the City's internal control policies should be done annually or up to every 5 years with a formal approval by Council.

Management's Response:

The purchasing division understood that the policy regarding City Council approval of purchases for non-public works projects had been changed and that City Council approval of these purchases was not required if the City's competitive bidding procedures had been met and sufficient funding had been included in the budget. However, the City's written purchasing policy does not reflect this change. The purchasing division is now providing backup documentation for all purchase orders over \$25,000 in order for the staff person approving the purchase order to review for compliance with the City's purchasing policies. City staff will conduct a comprehensive review of the City's purchasing ordinance and policies, which were last updated in 2008, for City Council review and consideration of any proposed updates no later than June 30, 2016. Additionally, City staff will review the City's internal control policies by September 30, 2016 and develop a plan for formal City Council approval of all as applicable.

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



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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.

Lance, Solt & Lughard, LLP

Brea, California
February 17, 2016