

# **Report on Internal Control over Financial Reporting**



CLA (CliftonLarsonAllen LLP)  
2875 Michelle Drive  
Suite 300  
Irvine, CA 92606  
714-978-1300 | fax 714-978-7893  
CLAAconnect.com

**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 City Council  
of the City of Glendale  
Glendale, California

We have audited, in accordance with 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 Glendale, California (the City), as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2020.

### **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.

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 have not been 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 certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

## **Supervision of Closing Procedures**

### Auditors' Comment and Recommendation

An important part of financial reporting is to have accurate financial data. Multiple auditor proposed journal entries were recorded based on procedures performed during our audit. These adjustments included entries to restate the beginning fund balance of the Successor Agency Fund for cash with fiscal agent and deferred bond charges, adjust unearned revenues in the Successor Agency Fund, eliminate unavailable revenues in the General Fund, record a loan receivable in the Low and Moderate Income Housing Asset Fund, and adjust interest receivable in the Internal Service Funds. Additionally, during our review, which includes searching for unrecorded liabilities, we noted an instance where an invoice was not properly accrued at year-end. The misstatements were due to several factors, which consist of not reconciling the general ledger balances to supporting documents and a misunderstanding of the accounting treatment of the transactions. We recommend that the City reviews its closing procedures for reviewing general ledger balances before the start of the next audit to reduce the number of auditor proposed journal entries.

### Management's Response

While Finance already has a detailed year-end closing procedure, Finance will improve the reconciliation process between the ledger and the supporting documents. At the same time, Finance will be more proactive at discussing with the City's external auditors for any unusual transactions to make sure that we have the same understanding of the interpretations of the Governmental Accounting Standards. Furthermore, for the expense accrual, Finance will make sure that the Accounting staff study all the Accounts Payable invoices thoroughly, and confirm with the departments for the service period.

## **Construction in Progress**

### Auditors' Comment and Recommendation

An important part of financial reporting is ensuring the accuracy of capital asset classifications and appropriately estimating the use of those capital assets in the form of depreciation expense. As these projects are completed, the assets should be transferred to the appropriate capital asset classification and depreciation of the capital assets should commence. During our audit, we identified certain capital improvement projects where construction was completed and the projects were placed in service; however, the asset value had not been transferred from the capital asset classification "Construction in Progress (CIP)" to the appropriate final capital asset classification (e.g., infrastructure, improvements). As a result, depreciation had not yet been computed on these capital assets. Per inquiry with management, this was due to City departments not communicating to Finance that certain projects were closed. We recommend that during the year, City departments review and/or determine if CIP projects are completed and that Finance is promptly notified to ensure accurate financial reporting and proper accounting of capital project inventory.

### Management's Response

In prior years, during the budget time and before the fiscal year end, Finance provided a list of all the open capital improvement projects to the City departments for review, and the departments informed Finance which projects to close. It turned out that the process was not efficient to identify all the projects that were completed. Starting in FY 2020-21, Finance will implement a new process. Finance will automatically close all the capital improvement projects that have no activities for a year, in addition to the projects that the departments inform Finance to close. Departments will have to provide justification approved by the department director and Finance Director in order to keep a project with no activity open.

## **Inventory**

### Auditors' Comment and Recommendation

Sound procedures for taking physical inventories are important in assuring that inventory reflected in the financial records does physically exist. During our review of inventory in the Electric Utility Fund, we noted that while the City has a policy that requires cycle counts of inventory, the City has not performed cycle counts since the implementation of the Munis system in January 2019. Per inquiry with management, Munis has not been able to provide reports required for cycle counts. We performed sample counts and noted discrepancies between physical count and perpetual inventory. As a result, the City performed a physical count of the entire inventory, which resulted in an immaterial adjustment. While the amount was immaterial, we recommend that the City ensures that cycle counts are performed and adjustments are made if necessary.

In addition, we observed that some of the discrepancies noted during our audit were due to employees coming in after hours and not completing the necessary paperwork for usage or an unused item returned by an employee was not added back in the system. We recommend that the City establishes procedures that will ensure the inventory system is properly updated whenever inventory is used or returned.

Lastly, during our review of inventory in the Fleet Fund, we noted that the detailed inventory schedule does not agree with the general ledger balance. This resulted in the misstatement of the general ledger balance for fleet inventory. Per management, the difference is due to inconsistencies on how inventory parts are recorded in the general ledger and the inventory system. We recommend that the City establishes procedures that will ensure consistency in the way inventory parts are recorded in the general ledger and the inventory system.

### Management's Response

GWP will conduct regular cycle counts and adjustments on annual basis in compliance with all City of Glendale established policies and procedures. Additionally, to remedy after-hours transactional discrepancies, GWP will implement new after-hours procedures to accurately account and track all Warehouse transactions.

For FY 2020-21, the Public Works Fleet Services Division changed the way that purchase orders are requested and issued for all automotive parts. In FY 2019-20, there were generally two purchase orders for each vendor, one charged to account 44350 (Shop PO) for sublet repairs, parts and service work and the second charged to account 14161 (Warehouse) for inventory parts. With two purchase orders for each vendor, this complicated the tracking of part purchases and resulted in mistakes; hence the FY 2020-21 policy change.

Fleet Services is now using the 14161 account string exclusively for purchasing all parts. For purchase orders with account string 44350, they are now solely used for sublet repair and service work (i.e., no parts). The change has resulted in a reduction of Fleet purchase orders charged directly to 44350 of about 70%. This will help mitigate the issue of parts going into inventory that have been expensed in the general ledger.

Public Works agrees with the audit recommendation and will draft procedures that reflect this new policy and ensure consistency with the way parts are received and accounted for in warehouse inventory. This will make certain inventory data in the City's financial management and fleet management system are consistent going forward.

### **City of Glendale's Responses to Findings**

The City's responses to the findings identified in our audit are described above. 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.

## **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*.

## **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.

*CliftonLarsonAllen LLP*

## **CliftonLarsonAllen LLP**

Irvine, California

November 30, 2020