



Management Letter
Year Ended June 30, 2019
City of Brea, California



January 30, 2020

To the Members of the City Council
City of Brea, California

We have audited the basic financial statements of the City of Brea, California (City) for the year ended June 30, 2019 and have issued our report thereon dated January 30, 2020. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

CURRENT YEAR MANAGEMENT LETTER COMMENTS

BANK RECONCILIATIONS

Observation:

To ensure that the City has properly reconciled its cash accounts, all variances in the City's bank account should be corrected. During our testing of the City's bank account reconciliations, we noted that variances in the amount of \$25,905 were identified and not investigated or corrected. Ensuring the bank reconciling items are identified, investigated, and properly addressed is a key control of financial reporting and safeguarding of assets.

Recommendation:

We recommend the City implement procedures to identify all variances and address them in a timely manner.

Management Response:

The City reconciles its bank accounts monthly; however, from time to time there are variances which are unable to be cleared by the end of the month. Staff continues to investigate any unreconciled items until the variances are cleared. In the instance of the \$25,905 variance, the source of the variance was unable to be located and was ultimately recorded as miscellaneous revenue as the amount was in the City's favor.

In order to mitigate this occurrence in the future, staff has implemented a daily reconciliation of bank activity to the general ledger cash activity to note any discrepancies that may occur. Additionally, staff will be reconciling the general ledger cash activity to daily items posted through cash receipts and disbursements as well as journal entries to verify that the daily change in total cash is as expected.

SEGREGATION OF DUTIES – CASH COLLECTIONS

Observation:

While obtaining our understanding of the cash receipting process, we noted that central cashiering shares one cash drawer to account for the day's receipts.

Recommendation:

We recommend the City implement procedures to create separate drawers for each cashier.

Management Response:

In conjunction with the 3rd floor remodel, the City will create separate drawers for each cashier. It is anticipated this will occur no later than September 30, 2020.

FINANCIAL REPORTING AND CLOSING

Observation:

To ensure accurate financial reporting, an entity should have procedures to work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process generally includes the review and/or reconciliation of all balances within the City's general ledger. Accounts must be reviewed for proper completeness and classification in the financial statements.

We noted that there were two adjustments to the financial statements:

Refuse franchise fees in the amount of \$54,173 were adjusted in the General Fund and the Sanitation Fund.

One month of General Fund overhead allocation, totaling \$109,483, that had not been charged, was recorded to various funds.

Recommendation:

We recommend that the City update its procedures to ensure that overhead allocations are performed in a timely manner.

Management's Response:

The City reconciles all account balances; however, typically does its comparison of year-over-year of account balances and revenues and expenditures results during audit fieldwork. For the future, the City will include this comparison of account balances and year-over-year revenues and expenditures as part of the closing and review process prior to the beginning of the audit.

STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS

FINANCIAL REPORTING AND CLOSING

Observation:

To ensure timely financial reporting, an entity should have procedures to work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process generally includes the review and/or reconciliation of all balances within the City's general ledger. Accounts must be reviewed for proper cutoff, classification, presentation, and appropriate disclosure in the financial statements.

While the City has revised their closing process to incorporate many of the elements described above, including checklists for various accounting processes that are performed on a weekly, monthly, quarterly, and annual basis, we have identified areas where the process should be strengthened to improve the overall timeliness of the closing process.

Current Year Status:

Partially Implemented

DEVELOPER CONTRIBUTIONS

Observation:

In accordance with generally accepted accounting principles, contributed assets are recognized at acquisition value. In July 2018, the City updated its Capital Asset Policy to formalize that donated capital assets are recorded at acquisition value at the time received, including infrastructure for residential and commercial developments. During our testwork over developer contributions received during the year, we noted that while the July 2018 Capital Asset Policy states the basis to record developer contributions, the City does not have a documented formal policy or process for recognizing the acquisition value of the contributed assets.

Current Year Status:

Implemented

Our audit procedures are designed primarily to enable us to form our opinions on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the City Council, the City's management and others within the organization and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California