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**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**

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
City of Calabasas
Calabasas, California

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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 Calabasas, California (the City), as of and for the year ended June 30, 2020, 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 27, 2021.

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 over financial reporting 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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be significant deficiencies.

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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.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the Schedule of Findings and Responses as items 2020-003 and 2020-004.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response 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 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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 27, 2021

**City of Calabasas
Schedule of Findings and Responses
For the Year Ended June 30, 2020**

**2020-001 – Segregation of Duties
*Significant Deficiency***

Criteria

Having appropriate segregation of duties within the IT environment is important to ensure that physical security and access to programs and data are appropriately controlled to prevent modification, damage or loss of data.

Condition

During our audit of the City, we noted a lack of segregation of duties within the accounts payable process. The Accounting Technician processing invoices has the ability to add/modify vendors along with access to all other accounts payable processing functions, such as entering invoices, printing and mailing checks.

Cause

The City does not have appropriate segregation of duties within the accounts payable processing function.

Effect

Unauthorized vendors could be entered into the accounting system and invoices processed for payment and mailed without the detection of the Finance Department.

Auditor's Recommendation

As stated above, an adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. We believe it is important for management and the City Council to be aware that whenever there is a lack of segregation of duties, the system is far more susceptible to errors or other irregularities, either intentional or unintentional, not being discovered.

It is recommended that the City restrict the ability to modify vendors to an individual not involved in the accounts payable process and have a separate individual responsible for the mailing of checks.

Management's Response

The City agrees with the recommendation. The City will implement this change by March 31, 2021 to restrict the ability to modify vendors to an individual not involved in the accounts payable process and have a separate individual responsible for the mailing of checks.

**City of Calabasas
Schedule of Findings and Responses
For the Year Ended June 30, 2020**

**2020-002 – Bank Reconciliation Review
*Significant Deficiency***

Criteria

Bank reconciliations should be prepared, reviewed and approved in a timely manner.

Condition

During our audit of the City, we noted that bank statements for various accounts were not reviewed or approved in a timely manner.

Cause

Even though the bank reconciliations were prepared, there was no documentation for the date of completion and no review had been completed.

Effect

Errors in the reconciliations can go undetected for a period of time without the appropriate review and approval procedures.

We understand that the City has compensating controls in place to regularly check bank activity, however, review of the bank reconciliations should still be performed timely.

Recommendation

We recommend that the City ensure that all bank reconciliations are reviewed in a timely manner and documentation of when the preparation and review are completed.

Management's Response

The City agrees with the recommendation. The City will implement this change by March 31, 2021 to have all bank reconciliations reviewed in a timely manner and document when the preparation and review are completed.

**City of Calabasas
Schedule of Findings and Responses
For the Year Ended June 30, 2020**

**2020-003 – Purchasing Policy and Contract Support
*Noncompliance***

Criteria

Contracts entered into should follow the purchasing policy, municipal code and have adequate supporting documentation for the procurement method used.

Condition

During our audit of the City, two contracts selected for testing did not have appropriate supporting documentation for the procurement method used or did not use the appropriate procurement method.

Cause

The City did not have sufficient supporting documents for entering into agreements with vendors/service providers of the contracts selected for testing.

Effect

The City's purchasing policy requirements are not consistently followed and controls over entering into agreements could be circumvented.

Recommendation

We recommend that the City review contracts entered into and ensure that appropriate supporting documentation is maintained and that the procurement method being used is in accordance with the City's purchasing policy and municipal code.

Management's Response

The City agrees with the recommendation. The City will implement this change by April 30, 2021 to review contracts entered into and ensure that appropriate supporting documentation is maintained and that the procurement method being used is in accordance with the City's purchasing policy and municipal code.

**City of Calabasas
Schedule of Findings and Responses
For the Year Ended June 30, 2020**

**2020-004 – Investment Policy
*Noncompliance***

Criteria

Per the City's investment policy, and in compliance with Government Code 53646(b), the City Treasurer will provide quarterly Treasurer Reports to City Manager and City Council.

Condition

Quarterly Treasurer Reports were not prepared or submitted to City Manager or City Council for review and approval.

Cause

The City is not in compliance with the investment policy's requirement of preparing and providing quarterly Treasurer Reports to City Council or City Manager. Based on discussions with management, there is no history of these reports being sent to City Council or City Manager.

Effect

The City is unaware of its compliance with City or state limitations for investments held.

Recommendation

We recommend that the City follow its investment policy and prepare quarterly Treasurer Reports for City Manager and City Council.

Management's Response

The City agrees with the recommendation. The City will implement this change by February 28, 2021 to follow its investment policy and prepare quarterly Treasurer Reports for City Manager and City Council.