

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 City Council
City of Carson
Carson, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Carson, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2019.

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, as described below, 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses.

Internal Control over Financial Reporting (Continued)

Material Weaknesses

Accounting for Carson Reclamation Authority Activity

Auditors' Comment

We noted that the following items related to activities of the Carson Reclamation Authority were not accounted for correctly: 1) A physical count of inventory was not performed at or near year end; 2) the purchase of multi-year insurance policies were not properly recorded and amortized; and, 3) the estimated liability for closure and post-closure landfill costs was not reviewed and updated for events occurring during the year; and, 4) a transfer of funds from the Carson Successor Agency was recorded as a liability instead of revenue. We recommend that the City establish policies and procedures to review, analyze and accurately account for the activities of the Carson Reclamation Authority that occur throughout the year.

Management's Response

The City will review transactions of the Carson Reclamation Authority to ensure that they are properly accounted for. In addition, the Carson Reclamation Authority will perform an annual physical inventory.

Year-End Closing Process – Material Post Close Adjustments

Auditors' Comment

There have been numerous postclose journal entries provided to us after the receipt of the initial trial balance and the start of final fieldwork, as well as material audit adjustments related to the recording of a Housing Authority note receivable and the accretion of accrued interest on the Successor Agency's 2003B Bonds. The resulting changes in the account balances caused delays in the preparation and completion of the audit working papers, as well as the financial statements themselves. In order to provide for a year-end closing process that will produce accurate financial data in a timelier manner, we recommend that a detailed year-end closing procedures checklist be developed that indicates, in detail, the person responsible for each closing procedure, when each closing procedure is expected to be completed, when each closing procedure has actually been completed, and when each related supporting audit schedule has been reviewed and agreed to the general ledger balance(s) that it supports by an appropriate person.

Management's Response

The accounting department will create a comprehensive year-end closing procedure checklist to ensure that all entries are posted timely and accurately. The close checklist will be reviewed by the Accounting Manager to verify all steps have been properly completed.

Internal Control over Financial Reporting (Continued)

Significant Deficiency

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 deficiency in internal control to be a significant deficiency.

Construction in Progress

Auditors' Comment

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. We identified certain projects where construction was essentially completed and the assets had been placed in service during the year; however, the asset values had not been transferred from construction in progress to the appropriate capital asset classes and depreciation had not yet commenced on these capital assets. As a result, an adjusting entry was made to reclassify the completed project to its appropriate asset class and record current year depreciation expense. We recommend that the City assign a specific staff person with adequate skill, knowledge, and experience to monitor the status of the construction-in-progress projects throughout the year. As these projects are completed and placed in service, the assets should be transferred to the appropriate capital asset classifications, and depreciation of the capital assets should commence in accordance with the City's capitalization policies.

Management's Response

We agree with the comment. The Accounting division was relying on City Council approval of completed projects before transferring the project expenditures from Construction in Progress to the appropriate asset class. The Engineering staff will be provided with immediate instruction to identify when projects have been placed in service. The Accounting staff will be provided with immediate instruction to properly record the assets and begin depreciation.

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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

We noted certain matters that we have reported to management and the City Council in a separate letter dated June 27, 2019.

City's Responses to the Findings

The City's responses to the findings 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.

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.

White Nelson Diehl Evans LLP

Irvine, California
June 27, 2019