

CITY OF BREA, CALIFORNIA
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2017



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

We have audited the basic financial statements of the City of Brea, California (the City) for the year ended June 30, 2017 and have issued our report thereon dated May 31, 2018. 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

CAPITAL ASSET POLICIES

OBSERVATION:

During our procedures over capital assets, we noted the City's capital asset policies do not address intangible assets. The capital asset listing maintained by the City did not include water rights or other intangible assets, and thus did not reconcile to the capital asset balance reported within the financial statements.

RECOMMENDATION:

We recommend the City review the policies and procedures over capital assets to update for the items noted above.

MANAGEMENT RESPONSE:

The City's water rights purchased in FY 13/14 were inadvertently not included in the City's Capital Asset Listing. Also, beginning with the fiscal year ended June 30, 2017, the City's preferred stock (Class "A" Share) in California Domestic Water Company were reclassified from Other Investments to Capital Assets. Therefore, these intangible assets will also now be included in the City's Capital Assets Listing. Additionally, the City's Capital Asset Policies will be updated as applicable to include intangible assets.

IT DISASTER RECOVERY POLICY

OBSERVATION:

During our testwork over IT policies and procedures, we noted the City has a Business Continuity Plan. The City's IT department have not tested the restoration of the City's financial system to ensure proper functioning of the plan.

RECOMMENDATION:

We recommend the City's IT department test the system restoration process to ensure proper functioning of the restoration procedures in case of disaster.

MANAGEMENT RESPONSE:

The City's Information Technology (IT) division is currently updating the IT recovery plan including procedures related to the City financial system. The IT recovery plan is projected to be completed by June 30, 2019. Upon completion of the plan, the City plans to test the system restoration process to ensure property functioning of the restoration procedures in case of disaster.

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.

Yaurinek, Trine, Day & Co., LLP

Laguna Hills, California
May 31, 2018