

CITY OF PASADENA, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2020



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**CITY OF PASADENA
JUNE 30, 2020
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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*

Honorable Mayor and
Members of the City Council
of the City of Pasadena
Pasadena, 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, 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 February 8, 2021. Our report includes a reference to other auditors who audited the financial statements of the Pasadena Fire and Police Retirement System, a Fiduciary Pension Trust Fund of the City of Pasadena, as described in our report on the City's financial statements. This report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Pasadena Fire and Police Retirement System.

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) as a basis for designing 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 have not been identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

Internal Control over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as Finding 2020-001, to be a material weakness.

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 questioned costs, as Findings 2020-002, 2020-003, 2020-004, and 2020-005 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 financial statements. 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*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.



CliftonLarsonAllen LLP

Irvine, California
February 8, 2021



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and
Members of the City Council
of the City of Pasadena
Pasadena, California

Report on Compliance for Each Major Federal Program

We have audited the City of Pasadena's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Pasadena Fire and Police Retirement System (the FPRS), a Fiduciary Pension Trust Fund. Our audit described below, did not include the operations of FPRS because FPRS engaged other auditors to perform their financial statement audit and FPRS did not report any expenditures of federal awards during the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of 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. We issued our report thereon dated February 8, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
(Continued)**

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
April 12, 2021

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF PASADENA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Agriculture</u>				
Passed-through the California Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.577	05-45781	\$ 1,283,402	\$ -
Passed-through the California Department of Health Service:				
Supplemental Nutrition Assistance Program Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16-10156	189,018	-
Total U.S. Department of Agriculture			<u>1,472,420</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant - Entitlement Grants Cluster:				
Community Development Block Grant	14.218	N/A	1,314,151	178,427
COVID 19 - Community Development Block Grant	14.218	N/A	9,404	-
Emergency Solutions Grant Program	14.231	N/A	134,500	116,576
COVID 19 - Emergency Solutions Grant Program	14.231	N/A	274,467	-
HOME Investment Partnerships Program	14.239	N/A	844,261	-
Community Development Block Grant Section 108 Loan Guarantees	14.248	N/A	423,175	-
Continuum of Care Program	14.267	N/A	2,764,134	1,548,356
Housing Voucher Cluster:				
Section 8 Housing Choice Vouchers	14.871	N/A	15,750,545	-
COVID 19 - Section 8 Housing Choice Vouchers	14.871	N/A	30,583	-
Passed-through the City of Los Angeles:				
Housing Opportunities for Persons with AIDS	14.241	C-134697	84,524	-
Total U.S. Department of Housing and Urban Development			<u>21,629,744</u>	<u>1,843,359</u>
<u>U.S. Department of the Interior</u>				
Direct Assistance:				
WaterSMART (Sustain and Manage America's Resources for Tomorrow)	15.507	N/A	24,805	-
Water Conservation Field Services	15.530	N/A	49,241	-
Total U.S. Department of the Interior			<u>74,046</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Assistance:				
COVID-19 - Coronavirus Emergency Supplemental Funding Program	16.034	N/A	111,618	-
Equitable Sharing Program	16.922	N/A	192,892	-
Total U.S. Department of Justice			<u>304,510</u>	<u>-</u>
<u>U.S. Department of Labor</u>				
Passed through State of California:				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIOA Adult Program	17.258	AA011004	399,004	-
WIOA Adult Program	17.258	K9110005	280,820	-
WIOA Youth Activities	17.259	AA011004, AA111004	471,871	-
WIOA Dislocated Worker Formula Grant	17.278	AA011004	357,587	-
WIOA Dislocated Worker Formula Grant	17.278	AA011004	38,418	-
WIOA Dislocated Worker Formula Grant	17.278	K9110005, AA011004	233,134	-
WIOA Dislocated Worker Formula Grant	17.278	K8106173, K9110005	742,321	-
COVID 19 - WIOA Dislocated Worker Formula Grant	17.278	K8106173, K9110005	6,400	-
Total United States Department of Labor			<u>2,529,555</u>	<u>-</u>

(Continued)

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF PASADENA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass-Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursement to Subrecipient
<u>U.S. Department of Transportation</u>				
Passed-through State of California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	2020 (74413)	\$ 73,000	\$ -
Highway Planning and Construction	20.205	BHLS-5064(078)	107,708	-
Highway Planning and Construction	20.205	ATP-CML-5064(089)	455,965	-
Highway Planning and Construction	20.205	HSIPL5064(084)	520,920	-
Subtotal Highway Planning and Construction Cluster			<u>1,157,593</u>	<u>-</u>
Federal Transit Cluster:				
Federal Transit - Capital Investment Grants	20.500	SAFTEA-LU HPLUL-5064(057)	12,385	-
Transit Services Program Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	CA-2018-065-00	268,869	-
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	CA-16X066	108,820	-
Job Access and Reverse Commute Program	20.516	CA-37-X171	862,830	-
Job Access and Reverse Commute Program	20.516	CA-37-X123-01	70,093	-
Job Access and Reverse Commute Program	20.516	CA-37-X171	371,804	-
Job Access and Reverse Commute Program	20.516	CA-37-X100, -X123, -X171	190,059	-
Subtotal Transit Services Program Cluster			<u>1,872,475</u>	<u>-</u>
Highway Safety Cluster:				
State and Community Highway Safety	20.600	PT19015	67,482	-
State and Community Highway Safety	20.600	PT19087	45,805	-
State and Community Highway Safety	20.600	PT20101	65,027	-
National Priority Safety Programs	20.616	PT19015	68,780	-
Subtotal Highway Safety Cluster			<u>247,094</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT19087	53,141	-
Minimum Penalties for Repeat Offenders for Driving				
While Intoxicated	20.608	PT20101	43,195	-
Total Minimum Penalties for Repeat Offenders for Driving			<u>96,336</u>	<u>-</u>
While Intoxicated			<u>96,336</u>	<u>-</u>
Total United States Department of Transportation			<u>3,385,883</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Direct Assistance:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	410,626	-
Special Projects of National Significance	93.928	N/A	276,184	-
Passed-through the County of Los Angeles:				
Temporary Assistance for Needy Families	93.558	IA0614	58,000	-
Passed-through the City of Inglewood:				
Temporary Assistance for Needy Families	93.558	19-W085	84,558	-
Subtotal for Temporary Assistance for Needy Families			<u>142,558</u>	<u>-</u>
Passed-through the County of Los Angeles:				
Public Health Emergency Response	93.354	PH-003349	260,001	-
COVID 19 - Public Health Emergency Response	93.354	PH-003349	13,000	-
Subtotal for Public Health Emergency Response			<u>273,001</u>	<u>-</u>
HIV Prevention Activities Health Department Based	93.940	PH-00809-2	43,678	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	H702536	327,616	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF PASADENA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass-Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursement to Subrecipient
<u>U.S. Department of Health and Human Services (Continued)</u>				
Passed-through the State of California Department of Health Service:				
Project Grant and Cooperative Agreements for Tuberculosis Control Programs	93.116	NU52PS004656	\$ 18,920	\$ -
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	17-10227	70,036	-
Immunization Cooperative Agreements	93.268	13-20337	65,795	-
Maternal and Child Health Services Block Grant to the States	93.994	201061	186,506	-
Medicaid Cluster:				
Medical Assistance Program	93.778	RFA #15-10146	183,308	-
Total U.S. Department of Health and Human Services			1,998,228	-
<u>U.S. Department of Homeland Security</u>				
Passed-through the State of California Governor's Office of Emergency Services:				
Hazard Mitigation Grant Program	97.039	037-56000-00	29,320	-
Passed-through the City of Los Angeles:				
Homeland Security Grant Program	97.067	EMW-2017-SS-00083	1,800	-
Passed-through the County of Los Angeles:				
Homeland Security Grant Program	97.067	EMW-2017-SS-00083	13,907	-
Total Homeland Security Grant Program			15,707	-
Total U.S. Department of Homeland Security			45,027	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 31,439,413	\$ 1,843,359

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY OF PASADENA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Pasadena (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 CONTINGENCIES

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? x yes none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships Program
14.871	Housing Voucher Cluster
14.267	Continuum of Care Program
17.258, 17.259, 17.278	Workforce Innovation and Opportunity Act Cluster
20.513, 20.516	Transit Services Program Cluster

- Dollar threshold used to distinguish between Type A and Type B programs: \$ 943,182
- Auditee qualified as low-risk auditee? yes x no

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

2020 – 001

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: During our analysis of the City attorney’s confirmation response, we noted a general liability claim that met the criteria for accrual that had not been included in the City’s estimate of its general claims liability as of the fiscal year ended June 30, 2020. During management’s verification of this general liability claim, they identified some additional general claims liabilities that had been booked twice, as part of accounts payable and as part of the total general claims liability.

Criteria or specific requirement: An important element of financial reporting is accounting for an entity’s exposure to potential general liability claims which should incorporate pending liabilities from attorneys working for the City that meet the criteria for accrual.

Effect: The result of the identified discrepancies was a material overstatement of the general claims liability and the related expenses.

Cause: The City records general claims liability claims based on review of the attorney’s confirmation response. The City reviews accounts payable detail for the claimant’s name for inclusion prior to recording the adjustment, however, the disbursements were in the name of the claimant’s attorney and therefore not recognized as recorded prior to recording the adjustment.

Repeat Finding: This is a first year finding.

Recommendation: We recommend that management review and update its year-end closing procedures related to the estimation of the general claims liability to ensure the accuracy of the recorded amount at year-end.

Views of responsible officials and planned corrective actions: The City concurs with this finding and has implemented the recommendation by updating its year-end closing procedures to include additional steps, which address this matter. As part of the required audit procedures at the end of the audit, the City Attorney provides the auditors with an “Attorney Letter,” which provides summary information on claims against the City. In the past, this information was used to adjust the balance of outstanding claims against the City. Finance will now request an additional report of the outstanding claims against the City after year-end, but prior to the beginning of the audit. Finance will book the required liability at this time and review and adjust any open or changed claims, reported on the final Attorney Letter. Additionally, Finance will verify that Accounts Payable accruals contain no duplication of liability.

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings (Continued)

2020 – 002

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: Internal controls over inventory should be designed to identify, account for, and report all transactions related to the inventory. As part of our audit procedures, we performed an inventory observation of a cycle count and noted variances between our count and the inventory listing provided by the Department.

Criteria or specific requirement: Internal controls over inventory should be designed to identify, account for, and report all transactions related to the inventory.

Effect: The result of the lack of controls was an overstatement of inventory and understatement of the related expenses.

Cause: There was a lack of controls over the inventory process, mainly related to documenting the release of items from inventory.

Repeat Finding: This is a first year finding.

Recommendation: We recommend the Department establish procedures and controls to ensure that the inventory of the City's Water and Power Department is maintained and that adequate supporting records of purchases, dispositions, and retirements of the inventory are received in order to accurately report the inventory balances for financial reporting purposes. In addition, we recommend that the Water and Power Department make plans to perform a complete physical inventory count as of the end of the next fiscal year in order to ensure the accuracy of the inventory balances in the general ledger system.

Views of responsible officials and planned corrective actions: The City concurs with the finding related to internal controls over inventory. The processes for conducting cycle counts have been reviewed and additional controls will be put in place to improve timeliness and accuracy. Additional controls include a formal schedule for conducting cycle counts with a focus on high value items, ensuring that any discrepancies are subject to recounts by different personnel than those who performed the original counts and management review of any inventory adjustments for discrepancies. The current inventory management software is outdated and has limited automation functionality which requires significant manual processing during and after the completion of cycle counts. The Water and Power Department will be performing a needs assessment during the next fiscal year to replace the current inventory management software. The Department is discussing plans to conduct a complete physical inventory count at June 30, 2021, which will require careful preparation because the inventory materials are subject to continuous movement due to the nature of utility operations.

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings (Continued)

2020 – 003

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: The City collects deposits for construction and demolition waste in response to State-mandated solid waste reduction goals, and as part of the City’s continued efforts to reduce landfilled solid waste, the City adopted the Construction and Demolition Waste Management Ordinance. We noted that the account balance had grown substantially over the last several years which did not meet our audit analysis expectations. In addition, City management informed us that an investigation had been started to determine the validity and accuracy of the deposit listing. The results of the investigation indicated that some of the deposits had already been refunded, or were old outstanding deposits with a lack of support for inclusion in the current fiscal year, and some that should be forfeited and recognized as revenue.

Criteria or specific requirement: Internal controls over deposit liabilities should be designed to identify all outstanding deposits, to account for the refunding of the deposits or the recognition of revenue, where appropriate, and to maintain an accurate detailed subsidiary schedule that reconciles to the general ledger.

Effect: This condition resulted in an overstatement of deposits payable and an understatement of related revenue.

Cause: Controls over deposits were not adequate to identify the type of deposit and how each deposit should be recorded in the general ledger and tracked on a subsidiary ledger.

Repeat Finding: This is a first year finding.

Recommendation: We recommend the City review and update internal control procedures related to the maintenance of an accurate subsidiary deposits payable schedule that includes regular (i.e. monthly) monitoring of the subsidiary schedule to ensure the validity and accuracy of the listed deposits, and the timely determination of when deposits should be refunded, forfeited, or a combination thereof.

Views of responsible officials and planned corrective actions: The City concurs with this finding and will implement the recommendation. The Department of Finance will conduct quarterly reviews of all deposit liability accounts, to ensure the validity and accuracy of the listed deposits, and will monitor the timely disposition of deposits. Regarding the construction and demolition deposits, the City has received the final report and recommendations of an outside consultant, who provided robust and detailed recommendations. All four departments (Public Works, Finance, DoIT, and Planning) have indicated their concurrence on all recommendations. It is expected that they will be implemented prior to June 30, 2021.

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings (Continued)

2020 – 004

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: As construction in progress is completed and placed in service, the capital assets should be transferred to the appropriate capital asset category and depreciation of the capital assets should commence. We identified several projects included in construction in progress (CIP) in the Light and Power Enterprise Fund that had been completed as of year-end but had not been properly transferred to the appropriate capital asset categories.

Criteria or specific requirement: The City is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement. 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.

Effect: CIP was overstated and the depreciable asset categories were understated.

Cause: The City's year-end closing procedures did not identify all completed CIP projects.

Repeat Finding: This is a first year finding.

Recommendation: We recommend that management review and modify existing controls over asset capitalization to ensure that completed CIP projects that have been placed in service are reclassified to the appropriate capital asset categories in a timely manner.

Views of responsible officials and planned corrective actions: The City concurs with the finding related to construction in progress in the Light and Power Fund. Construction in the Light and Power Fund infrastructure projects, frequently span over multiple-years and involves multiple Project Job Orders. In certain cases, the projects are substantially complete, portions are placed in service before full cost information is recorded and the jobs are formally closed. Management will implement processes, to review the status of Project Job Orders more frequently throughout the year, at least quarterly. This will provide a more timely review of the construction in progress and jobs may be closed regularly and reclassified to the appropriate asset categories.

**CITY OF PASADENA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings (Continued)

2020 – 005

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition: In our review of the bank reconciliations, we noted that items reported as reconciling items were not recorded timely to the general ledger and the bank reconciliations showed unreconciled differences due primarily to a lack of reconciliation of credit card receipts collected at various locations managed by City employees.

Criteria or specific requirement: An important element of internal control over cash is the bank reconciliation process which enables staff to identify differences between bank balances and general ledger balances and resolve such differences in a timely manner. This process will provide for accurate general ledger balances and minimize the risk of misappropriation of cash.

Effect: Cash balances could be misstated by the impact of the timing of credit card transactions.

Cause: The City bank reconciliation has reconciling items related to credit cards that have a significant running total related to prior years that carries over monthly.

Repeat Finding: This is a first year finding.

Recommendation: We recommend that procedures related to the reconciliation of credit card transactions be modified to ensure the accuracy of the recording of the transactions related to the credit card receipts and to ensure the timely resolution of reconciling items.

Views of responsible officials and planned corrective actions: The City concurs with the finding and recommendation. The Department of Finance will review and improve procedures related to the reconciliation of credit card transactions. This will ensure, the accuracy of recording transactions, related to credit card receipts and to ensure the timely resolution of reconciling items.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**CITY OF PASADENA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I – Financial Statement Findings

None noted.

Section II – Findings and Questioned Costs – Major Federal Programs

Finding Number 2019-001

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: HOME Investment Partnerships Program

CFDA Number: 14.239

Condition: A sample of subrecipient files and agreements for the subawards made to a not-for-profit entity that received HOME program funds from the City did not include a CFDA Number or the Federal Award Identification Number (FAIN) as required by Uniform Guidance.

Status: The City has taken corrective action to address the finding.

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