CITY OF PASADENA
Pasadena, California

Single Audit Report on Federal Awards

Year ended June 30, 2009

CITY OF PASADENA
Pasadena, California

Single Audit Report on Federal Awards

Year ended June 30, 2009

TABLE OF CONTENTS

	Page
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*	1
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	10
Summary Schedule of Prior Audit Findings	12

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Honorable Mayor and City Council
City of Pasadena, California

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*

We have audited the financial statements of the City of Pasadena, California (City) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pasadena's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. The matter described in the accompanying Schedule of Findings and Questioned Costs as item 09-1 conforms to this definition.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not considered a material weakness.

The City's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the City Council, management of the City of Pasadena, others within the City of Pasadena, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We also noted other matters involving internal control over financial reporting that we have reported to the City Council of the City of Pasadena in a separate letter dated December 17, 2009.

Mayer Hoffman McCann P.C.

Irvine, California
December 17, 2009

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Honorable Mayor and City Council
City of Pasadena, California

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of City of Pasadena with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Pasadena's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Pasadena's management. Our responsibility is to express an opinion on the City of Pasadena's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Pasadena'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.

In our opinion, the City of Pasadena complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Pasadena is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Pasadena's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Pasadena's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pasadena's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures and Federal Awards

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 of Pasadena as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City if Pasadena's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 not including the financial data schedule and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 17, 2009

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant Entitlement	14.218	n/a	$ 2,078,271	2,078,271
Section 108 Loan - Fair Grove Shopping Center	14.248	n/a	334,003	334,003
Total CDBG Entitlement and Small Cities Grants			2,412,274	2,412,274
Section 8 Rental Voucher Program	14.871	CA079VO	11,242,817 *	-
Emergency Shelter Grant Program	14.231	n/a	97,516	97,516
Supportive Housing	14.235	n/a	941,743	941,743
Shelter Plus Care	14.238	n/a	619,884	619,884
Home-Investment in Affordable Housing	14.239	n/a	1,715,373	-
Total direct assistance			17,029,607	4,071,417
Passed through the City of Los Angeles:				
Home Opportunities for Persons with AIDS	14.241	C98522	58,193	-
Total Department of Housing and Urban Development			17,087,800	4,071,417
Department of Labor				
Passed through the State of California:				
Workforce Investment Act - Adult	17.258	Various	533,371	44,257
Workforce Investment Act - Youth	17.259	Various	491,711	181,608
Workforce Investment Act - ARRA Adult	17.259	Various	579	-
Workforce Investment Act - ARRA Dislocated Workers	17.259	Various	318	-
Workforce Investment Act - Dislocated Workers	17.260	Various	585,632	33,034
Workforce Investment Act - Rapid Response	17.260	Various	248,057	-
Workforce Investment Act- Incentive	17.260	Various	1,431	-
Workforce Investment Act - Foster Youth- Wagner Peyser	17.207	Various	100,000	50,000
Workforce Investment Act- IndyMac Bank	17.260	Various	415,038	181,164
Workforce Investment Act- CalGRIP	17.261	Various	37,553	
Workforce Investment Act- Economic Stimulus 2	17.260	Various	14,704	10,205
Workforce Investment Act- Economic Stimulus 3	17.260	Various	4,414	-
Workforce Investment Act- ARRA Youth	17.259	Various	24,275	-
Passed through the County of Los Angeles:				
Workforce Investment Act - Adult	17.258	Various	86,512	13,309
Workforce Investment Act - Youth	17.259	Various	60,919	13,451
Workforce Investment Act - Dislocated Workers	17.260	Various	59,969	14,803
Total Department of Labor			2,664,483 *	541,831

* Major program
n/a = not available

(Continued)

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
(Continued)

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures		Amount Provided to Subrecipients
Department of Health and Human Services					
Passed through the State of California Department of Health Services:					
Maternal and Child Health Services Block Grant	93.994	200661	118,285		-
Centers for Disease Control and Prevention - TB Control	93.283	TB CSGF 90-76	37,479		-
Child Health Development Program - Foster Care	93.658	n/a	108,508		-
Child Lead Poison Prevention	93.197	95-6000759	104,739		-
CHDP Gateway	93.778	n/a	299,348		-
Medi-Cal Administrative Claiming	93.778	04-35118	209,303		-
Immunization Subvention Funds	93.268	98-15761,99-86354	64,864		-
Passed through the County of Los Angeles:					
Bio-Terrorism	93.069		342,457		
Alcohol and Drug Abuse/Mental Health Services Block Grant	93.992	Various	202,368		-
AIDS HIV Early Intervention	93.914	H209212	905,309	*	-
Total Department of Health and Human Services			2,392,660		-
Department of Justice					
Direct Assistance:					
Asset Forfeiture	16.000	CA 1953	218,209		-
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0350	24,447		-
Community Oriented Policing Services Technology Grants	16.710	2001-CK-WX-0020	283,288		
Passed through the State of California Department of Criminal Justice and Planning:					
Elder Abuse and Advocacy and Outreach Program - VOCA Grant	16.575	EA08-11-7625/ EA07-10-7625	74,291		-
Total Department of Justice			600,235		-
Department of Treasury					
Direct Assistance:					
Asset Forfeiture	21.000	CA 1953	9,218		-
Total Department of Treasury			9,218		-

* Major program
n/a = not available

(Continued)

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
(Continued)

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
Department of Agriculture				
Passed through the State of California Department of Health Services:				
Supplemental Food Program for Women, Infants and Children (WIC)	10.557	05-45781	899,020	-
Total Department of Agriculture			899,020	-
Department of Transportation				
Passed through the California Department of Transportation:				
Highway Planning and Construction	20.205	Various	1,646,315	-
State and Community Highway Safety	20.600	Various	264,770	-
Total Department of Transportation			1,911,085	-
Department of Homeland Security				
Direct Assistance:				
2006 State Homeland Security Grant Program	97.005	2006-71,OES#37-00000	196,356	-
2007 State Homeland Security Grant Program	97.005	2007-08,OES#37-00000	105,431	-
Passed through the Federal Emergency Management Agency				
FEMA- 1008-DR-CA 1994 Northridge Earthquake	97.036	037-56000	201,140	-
Passed through the City of Los Angeles				
2006 Urban Areas Security Initiative	97.008	C-112112	380,646	-
Total Department of Homeland Security			883,573	-
Total Expenditures of Federal Awards			$26,448,074	4,613,248

* Major program
n/a = not available

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Pasadena that are reimbursable under the programs of federal agencies providing financial assistance. For the purposes of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

During the fiscal year ended June 30, 2009, the City disbursed $4,613,248 subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

(d) Loans Outstanding

At June 30, 2009, outstanding loans under the U.S. Department of Housing and Urban Development – Section 108 program and U.S. Department of Housing and Urban Development – HOME program were $1,575,000 and $711,878, respectively. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards. Outstanding loans under the U.S. Department of Housing and Urban Development – Community Development Block Grant program were $334,004 at June 30, 2009. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards.

(e) Additional Disclosures for Elder Abuse and Advocacy and Outreach Program

Total grant expenditures for the Elder Abuse and Advocacy and Outreach Program of $137,915 are for operating expenditures of two grant years. The City's match on the Victims of Crime Act (VOCA) grant was $22,500 for grant year ending September 30, 2008 in operating expenditures.

CITY OF PASADENA

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.

2. There were no material weaknesses in internal control over financial reporting. There was one significant deficiency in internal control over financial reporting that we described as item 09-1.

3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.

4. There were no material weaknesses in internal control over the major programs of the auditee.

5. An unqualified report was issued by the auditors on compliance for major programs.

6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.

7. The major programs of the auditee were as follows:

   - Department of Housing and Urban Development – Section 8 Rental Voucher Program – CFDA #14.871
   - Department of Labor – Workforce Investment Act Program – CFDA #17.207, 17.258, 17.259, 17.260, 17.261
   - Department of Health and Human Services - AIDS HIV Early Intervention Program – CFDA #93.914

8. The dollar threshold used to distinguish Type A and Type B programs was $793,442.

9. The auditee was considered a low risk auditee for the year ended June 30, 2009 for the purposes of determining major programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(09-1) Enhancing Controls over Supplies Inventory

The City has a formal policy regarding inventory cycle counts. Cycle counts are performed regularly in accordance with the policy, with a focus on high-value material items. Results of the cycle counts performed were validated through our physical inventory observation, although it was noted that one high ticket item that had been withdrawn from inventory remained reflected as inventory in the City's accounting

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

records. It is important to identify and remove withdrawn inventory from the accounting records in a timely manner.

Recommendation

We recommend that the City continue to improve policies and procedures to enhance proper accountability over inventory records and physical inventory counts.

Management's Comments Regarding Corrective Actions Planned

The City will update existing formal policies to improve validation of physical inventory counts, including implementation of periodic complete physical inventory counts for selected high-value items, including cost validation. Cycle counts will also be continued in accordance with the existing policy. A quarterly summary of cycle counts will be prepared to ensure adherence to existing policy regarding frequency, proper procedure and use of proper documentation.

The City will also develop and implement a policy to document and strengthen procedures for updating inventory accounting records for activity occurring during *emergencies and* after regular business hours. These procedures will ensure that inventory materials removed from physical inventory during an emergency response or after-hours activities are properly adjusted as inventory in the City's accounting records.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

There were no auditors' findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

CITY OF PASADENA

Summary Schedule of Prior Audit Findings

Year ended June 30, 2008

The following is the status of prior audit findings:

(06-2) Construction in Progress

During the year ended June 30, 2006, it was noted that the City had not maintained a detail listing that supported the ending balance of construction in progress at year end by project. Since the City did not have a detailed listing by project, the City was unable to determine if any projects had been mistakenly capitalized that should have been expensed.

During the year ended June 30, 2007, a detailed listing by project for all construction in progress was compiled, which supported the ending balance at year end. However, it was noted that the detailed listing of construction in progress contained $9,844,831 of non-capitalizable projects, which resulted in a prior period adjustment and a post-closing audit adjustment.

During the year ended June 30, 2008, a detailed listing by project for all construction in progress was compiled, which supported the ending balance at year end. However, it was noted that the detailed listing of construction in progress contained $3,599,089 of non-capitalizable projects, which resulted in a prior period adjustment and a post-closing audit adjustment.

Recommendation

We recommended that the City conduct a review of its construction in progress in order to support its balance outstanding at year end. We also recommended that additions and deletions to construction in progress be analyzed in order to ensure that only capitalizable projects are capitalized and that all completed construction in progress projects are removed.

Resolution

Based on the results of testing during the year ended June 30, 2009, no instances were identified of projects, which had been mistakenly capitalized and recorded as construction in progress.