

**CITY OF PASADENA**  
**SINGLE AUDIT REPORTS**  
**YEAR ENDED JUNE 30, 2012**

**CITY OF PASADENA  
PASADENA, CALIFORNIA  
SINGLE AUDIT REPORT ON FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

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BROWN  
ARMSTRONG

CERTIFIED  
PUBLIC  
ACCOUNTANTS

BROWN ARMSTRONG

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S 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 City Council  
City of Pasadena, California

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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, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 29, 2012. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting 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 control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 12-01 through 12-02, that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.



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Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

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*.

We also noted other matters that we reported to the City Council of the City of Pasadena in a separate letter dated November 29, 2012.

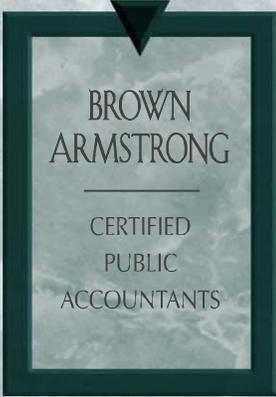
The City's written responses to the significant deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Pasadena, California  
November 29, 2012



# BROWN ARMSTRONG

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Pasadena, California

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### Compliance

We have audited the compliance of the City of Pasadena (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2012. The City'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's management. Our responsibility is to express an opinion on the City'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'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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-03 through 12-05.

### Internal Control Over Compliance

Management of the City 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's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to



test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

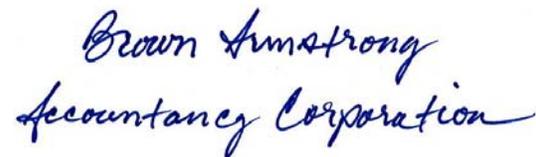
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did 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 as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City'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, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 management, the City Council, others within the City, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Pasadena, California  
November 29, 2012

**CITY OF PASADENA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Sub- Recipients
<b>Department of Labor</b>				
<i>Passed through the State of California Employment Development Department</i>				
Workforce Investment Act - Adult	17.258	K178656, K282471	\$ 645,137	\$ 111,690
Workforce Investment Act - Youth	17.259	K178656, K282471	604,314	1,436
Workforce Investment Act - Dislocated Worker	17.260	K178656, K282471	734,929	140,657
Workforce Investment Act - Rapid Response	17.260	K074137, K178656, K28471	214,550	-
Workforce Investment Act - Incentive	17.260	K178656,	5,782	-
Workforce Investment Act - Foster Youth	17.207	K178656, K282471	198,489	-
Workforce Investment Act - CalGRIP	17.261	K074137	64,789	-
Workforce Investment Act - RR with Participants	17.260	K074137	41,513	13,773
Workforce Investment Act - New Start 15% DW Aug	17.258	R970533	78,368	22,976
Workforce Investment Act - National Emergency Grant	17.260	K282471	68,250	-
			<u>2,656,121</u>	<u>290,532</u>
<i>Total Passed through State of California Employment Development Department</i>				
<i>Passed through the County of Los Angeles</i>				
Workforce Investment Act - County Youth	17.259	Y080905	60,427	-
			<u>60,427</u>	<u>-</u>
<i>Total Passed through County of Los Angeles</i>				
<i>Passed through the City of Hawthorne</i>				
Workforce Investment Act - National Emergency Grant	17.277	11W109	124,746	-
			<u>124,746</u>	<u>-</u>
<i>Total Passed through City of Hawthorne</i>				
			<u>2,841,294</u>	<u>290,532</u>
<b>Department of Health and Human Services</b>				
<i>Passed through the State of California Department of Health Service</i>				
Immunization Subvention Funds	93.268	09-11288	60,673	-
Medi-Cal Administrative Claiming	93.778	04-35118	116,507	-
Child Lead Poison Prevention	93.197	95-6000759	112,410	-
MCH County and Comprehensive Prenatal Outreach	93.994	201061	113,746	-
MCH Block Infant	93.994	201061	233,198	-
LA County Tobacco Reduction Using Effective Strategies and Teamwork - ARRA	93.724	20.393	131,319	-
Renew Environments for Nutrition, Exercise, and Wellness - ARRA	93.724	20.394	44,757	-
Child Health and Disability Prevention Program - Gateway	93.778	None - Pasadena 63	284,009	-
			<u>1,096,619</u>	<u>-</u>
<i>Total Passed through State of CA DHS</i>				
<i>Passed through the County of Los Angeles:</i>				
Alcohol & Drug Abuse/Mental Health Services Block Grant - AODPS	93.992	H702536	198,998	-
Alcohol & Drug Abuse/Mental Health Services Block Grant - General Relief	93.992	H700118	18,681	-
Alcohol & Drug Abuse/Mental Health Services Block Grant - CALWORKS	93.992	H701389A	2,341	-
AIDS HIV Early Intervention	93.914	H209212	1,315,004	-
Bio-Terrorism	93.069	H-701584	279,344	-
			<u>1,814,368</u>	<u>-</u>
<i>Total Passed through County of Los Angeles</i>				
			<u>2,910,987</u>	<u>-</u>
<b>Total Department of Health and Human Services</b>				

\* Denotes a Major Program

N/A indicates that information is not available

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

**CITY OF PASADENA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
YEAR ENDED JUNE 30, 2012**

	Federal Domestic Assistance Number		Program Identification Number	Program Expenditures	Amount Provided to Sub- Recipients
<b>Department of Housing and Urban Development</b>					
<i>Direct Programs</i>					
Community Development Block Grant Entitlement	14.218	*	n/a	2,002,041	528,334
Section 108 Loan - Fair Grove Shopping Center	14.248		n/a	354,509	-
Community Development Block Grant - ARRA	14.253	*	n/a	12,275	1,663
Homeless Prevention Rapid Re-Housing Program - ARRA	14.257		n/a	238,031	214,424
Section 8 Low Income Housing - Voucher Program	14.871	*	n/a	13,115,734	-
HOME - Investment in Affordable Housing	14.239		n/a	1,076,360	-
Shelter Plus Care	14.238		n/a	764,739	-
Emergency Shelter Grant Program	14.231		n/a	97,383	97,383
Supportive Housing	14.235	*	n/a	1,078,241	-
<i>Total Direct Programs</i>				18,739,313	841,804
<i>Passed through the City of Los Angeles</i>					
Home Opportunities for Persons with AIDS	14.241		C98522	29,720	-
<i>Total Passed through the City of Los Angeles</i>				29,720	-
<b>Total Department of Housing and Urban Development</b>				<b>18,769,033</b>	<b>841,804</b>
<b>Department of Agriculture</b>					
<i>Passed through the State of California Department of Agriculture</i>					
WIC - ARRA	10.557		08-85456	19,625	-
Supplemental Food Program for Women, Infants and Children (WIC)	10.557		05-45781	1,354,144	-
<i>Total Passed through the State of California Department of Agriculture</i>				1,373,769	-
<b>Total Department of Agriculture</b>				<b>1,373,769</b>	<b>-</b>
<b>Department of Homeland Security</b>					
<i>Passed through the County of Los Angeles</i>					
FY 2008 State Homeland Security Grant Program	97.005		2008-0006, OES#37-00000	1,143,950	-
FY 2009 State Homeland Security Grant Program	97.005		2009-0019, OES#37-00000	76,517	-
FY 2010 State Homeland Security Grant Program	97.005		2010-0019, OES#37-00000	36,003	-
<i>Total Passed through the County of Los Angeles</i>				1,256,470	-
<i>Passed through the City of Los Angeles</i>					
FY 2008 Urban Areas Security Initiative	97.067		2008-0006, OES#37-95050	39,819	-
FY 2009 Urban Areas Security Initiative	97.067		2009-0019, OES#37-95050	11,715	-
<i>Total Passed through the City of Los Angeles</i>				51,534	-
<b>Total Department of Homeland Security</b>				<b>1,308,004</b>	<b>-</b>
<b>Department of Transportation</b>					
<i>Passed through the State of California Department of Transportation</i>					
La Loma Bridge	20.205		HP21L-5064-(020)	122,477	-
Civic Center Mid-Town Public Improvements	20.500	*	RPSTPLE-5064(048)	2,522,183	-
East Colorado Blvd. Specific Plan	20.205		CML-5064(067)	54,657	-
Route 210 Freeway Soundwalls	20.205		HPLU-5064(058)	94,926	-
Preventative Maintenance Asphalt 2011-2015	20.205		RPSTPLE-5064(070)	204,901	-
South Access Pedestrian Bridge to SMV Lt Rail	20.500	*	CA-03-0771	806,342	-
Intelligent Transportation System - Phase 1	20.500	*	SAFTEA-LU GRANT	427,155	-
L-T Signal Washington and Hill-FHWA via MTA	20.205		HSIPL5064-(063)(064)	215,891	-
Selective Traffic Enforcement Program	20.600		PT11003	61,114	-
Selective Traffic Enforcement Program	20.600		20253	191,756	-
UCD Sobriety Checkpoint Grant	20.600		SC12310	69,344	-
Safe Routes to School	20.205		SRTSLNI-5064(069)	20,592	-
Pedestrian Safety for Signalized Intersections	20.600		PS1001	539	-
<i>Total Passed through the State of California Department of Transportation</i>				4,791,877	-
<b>Total Department of Transportation</b>				<b>4,791,877</b>	<b>-</b>

\* Denotes a Major Program

N/A indicates that information is not available

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

**CITY OF PASADENA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
YEAR ENDED JUNE 30, 2012**

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Sub- Recipients
<u>Department of Energy</u>				
<i>Direct Programs</i>				
Repair/Replace Existing Street Light System - ARRA	81.128	09-SC004851	478,816	-
Repair/Replace Existing Street Light System - ARRA	81.128	09-SC004851	86,479	-
<i>Total Direct Programs</i>			565,295	-
Total Department of Energy			565,295	-
<u>Department of Justice</u>				
<i>Direct Programs</i>				
Asset Forfeiture	16.000	CA0195300	249,018	-
Neighborhood Outreach Network (NOW) Project	16.541	2010-JL-FX-0044	152,988	-
Edward Byrne Memorial Justice Assistance Grant	16.804	2011-DJ-BX-2204	55,896	-
<i>Total Direct Programs</i>			457,902	-
<i>Indirect Programs - Passed through the City of Los Angeles</i>				
City of Los Angeles Recovery Act Justice Assistance Grant Project Award - ARRA	16.804	2009-SB-B9-2024	81,923	-
<i>Total Indirect Programs - Passed through the City of Los Angeles</i>			81,923	-
Total Department of Justice			539,825	-
<u>Department of Treasury</u>				
<i>Direct Programs</i>				
Asset Forfeiture	21.000	CA0195300	64,626	-
<i>Total Direct Programs</i>			64,626	-
Total Department of Treasury			64,626	-
<u>U.S. Small Business Administration</u>				
<i>Direct Programs</i>				
Small Business Administration Congressional Grant	59.059	SBAHQ-10-I-0270	51,566	-
<i>Total Direct Programs</i>			51,566	-
Total U.S. Small Business Administration			51,566	-
TOTAL FEDERAL ASSISTANCE PROGRAMS			\$ 33,216,275	\$ 1,132,336

\* Denotes a Major Program

N/A indicates that information is not available

**CITY OF PASADENA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

**NOTE 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 (City) that are reimbursable under the programs of federal agencies providing financial assistance. For the purposes of the schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received directly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with such federal funds are reported on 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. Sub-recipients

During the fiscal year ended June 30, 2012, the City disbursed \$1,132,336 to sub-recipients to be used for the federally allowable expenditures in accordance with grant agreements.

**NOTE 2 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following is a reconciliation between the Schedule of Expenditures of Federal Awards to Operating Grants and Contributions and Capital Grants and Contributions as presented in the City’s Comprehensive Annual Financial Report:

Operating Grants and Contributions	\$ 39,008,900
Capital Grants and Contributions	<u>15,664,757</u>
Total Grants and Contributions from Governmental Activities per the City's Comprehensive Annual Financial Report	\$ 54,673,657
Adjustments:	
Net increase in deferred revenues between fiscal year 2011 and fiscal year 2012 due to changes in eligibility	1,402,017
Net unbilled expenses due to timing differences	(722,888)
Grants from the State of California and other entities recorded as Operating and Capital Grants and Contributions in accordance with accounting principles generally accepted in the United States of America (GAAP)	23,890,265
Non-grant amounts received from the Federal Emergency Management Agency	63,532
Miscellaneous program income and other adjustments	(334,251)
Workforce Investment Act amounts reported in agency funds	<u>(2,841,294)</u>
Net Adjustments between the Schedule of Expenditures of Federal Awards and Grant Contributions	<u>21,457,381</u>
Total Expenditures of Federal Awards	<u>\$ 33,216,276</u>

**NOTE 3 – CLUSTER INFORMATION**

Presented in this note are only grants that are clustered under Part 5 of the *Compliance Supplement* to OMB Circular A-133, and all grants are not presented.

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Federal Expenditures</u>
<b>CDBG - Entitlement Grants Cluster</b>		
<i>Direct Programs</i>		
14.218	Community Development Block Grants/Entitlement Grants	\$ 2,002,041
14.253	Community Development Block Grants ARRA Entitlement Grants (CDBG-R) - (Recovery Act Funded)	<u>12,275</u>
Total CDBG - Entitlement Grants Cluster		<u>\$ 2,014,316</u>
<b>Housing Voucher Cluster</b>		
<i>Direct Programs</i>		
14.871	Section 8 Housing Choice Vouchers	\$ 13,115,734

**NOTE 3 – CLUSTER INFORMATION** (Continued)

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Federal Expenditures</u>
<b>JAG Program Cluster</b>		
<i>Direct Programs</i>		
16.804	Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government <i>Passed Through the City of Los Angeles</i>	\$ 55,896
16.804	City of Los Angeles Recovery Act Justice Assistance Grant Project Award - ARRA	<u>81,923</u>
Total JAG Program Cluster		<u><u>\$ 137,819</u></u>
<b>Employment Service Cluster</b>		
<i>Passed Through the State of California Economic Development Department</i>		
17.207	Employment Service	\$ 198,489
<b>WIA Cluster</b>		
<i>Passed Through the State of California Employment Development Department</i>		
17.258	Workforce Investment Act - Adult	\$ 645,137
17.259	Workforce Investment Act - Youth	604,314
17.260	Workforce Investment Act - Dislocated Worker	734,929
17.260	Workforce Investment Act - Rapid Response	214,550
17.260	Workforce Investment Act - Incentive	5,782
17.260	Workforce Investment Act - RR with Participants	41,513
17.258	Workforce Investment Act - New Start 15% DW Aug	78,368
17.260	Workforce Investment Act - National Emergency Grant	68,250
<i>Passed Through the County of Los Angeles</i>		
17.259	Workforce Investment Act - County Youth	<u>60,427</u>
Total WIA Cluster		<u><u>\$ 2,453,270</u></u>
<b>Highway Planning and Construction Cluster</b>		
<i>Passed Through the State of California Department of Transportation</i>		
20.205	La Loma Bridge	\$ 122,477
20.205	East Colorado Blvd. Specific Plan	54,657
20.205	Route 210 Freeway Soundwalls	94,926
20.205	Preventive Maintenance - Asphalt St-2005-2010 - ARRA	204,901
20.205	L-T Signal Washington and Hill-FHWA via MTA	215,891
20.205	Safe Routes to School	<u>20,592</u>
Total Highway Planning and Construction Cluster		<u><u>\$ 713,444</u></u>
<b>Federal Transit Cluster</b>		
<i>Passed Through the State of California Department of Transportation</i>		
20.500	Civic Center Mid-Town Public Improvements	\$ 2,522,183
20.500	South Access Pedestrian Bridge to SMV Lt Rail	806,342
20.500	Intelligent Transportation System - Phase 1	<u>427,155</u>
Total Federal Transit Cluster		<u><u>\$ 3,755,680</u></u>

**NOTE 3 – CLUSTER INFORMATION** (Continued)

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Federal Expenditures</u>
<b>Highway Safety Cluster</b>		
<i>Passed Through the State of California Department of Transportation</i>		
20.600	Selective Traffic Enforcement Program	\$ 61,114
20.600	Selective Traffic Enforcement Program	191,756
20.600	UCB Sobriety Checkpoint Grant	69,344
20.600	Pedestrian Safety for Signalized Intersections	<u>539</u>
Total Highway Safety Cluster		<u><u>\$ 322,753</u></u>
<b>Immunization Cluster</b>		
<i>Passed Through the State of California Department of Health Service</i>		
93.268	Immunization Subvention Funds	\$ 60,673
<b>Medicaid Cluster</b>		
<i>Passed Through the State of California Department of Health Service</i>		
93.778	Child Health and Disability Prevention Program - Gateway	\$ 400,516
<b>Homeland Security Cluster</b>		
<i>Passed Through the City of Los Angeles</i>		
97.067	FY2008 Urban Areas Security Initiative	\$ 39,819
97.067	FY2009 Urban Areas Security Initiative	<u>11,714</u>
		<u><u>\$ 51,533</u></u>

**NOTE 4 – LOAN OUTSTANDING**

At June 30, 2012, an outstanding loan under the U.S. Department of Housing and Urban Development – Section 108 program was \$685,000. Amounts expended under the U.S. Department of Housing and Urban Development – Community Development Block Grant program were \$354,509 for fiscal year 2012. Amounts expended from the loan proceeds are reflected in the accompanying Schedule of Expenditures of Federal Awards.

**CITY OF PASADENA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

A. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified  
not considered to be a material weakness?  Yes  No

(See items 12-01 through 12-02.)

Noncompliance material to financial statements noted?  Yes  No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified  
not considered to be a material weakness?  Yes  No

(See items 12-03 through 12-05.)

Type of auditor's report issued on compliance for  
major programs: Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with OMB Circular A-133, Section  
.510(a)?  Yes  No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218, 14.253	CDBG - Entitlement Grants
14.235	Supportive Housing Program
14.871	Housing Voucher Cluster
20.500	Federal Transit Cluster
93.914	AIDS HIV Early Intervention

Dollar threshold used to distinguish between Type A and  
Type B programs \$ 996,488

Auditee qualified as low-risk auditee?  Yes  No

B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

**CURRENT YEAR SIGNIFICANT DEFICIENCIES**

12-01 – Accounts Payable

During our testing of unrecorded liabilities, we selected a sample of forty (40) material cash disbursements that occurred subsequent to fiscal year-end and reviewed support to ensure that they were accrued in accordance with accounting requirements. The results of our testing showed the following:

- One (1) of the forty (40) disbursements was not adequately accrued. The total of the disbursement totaled \$97,424.30.
- One (1) of the forty (40) disbursements lacked sufficient support. The total of the disbursement totaled \$155,925.

Recommendation

We recommend that the City's Accounts Payable Division (AP) enter the activity periods for each invoice received into the City's accounting software, PeopleSoft. This provides the Finance Department the ability to do query searches based on activity date to assist in its determination of accounts payable completeness and accuracy. In addition, we recommend that the Accounts Payable Division actively seek to maintain complete records of its transactions.

Management's Comments Regarding Corrective Actions Planned

In conjunction with the Accounting Division, Accounts Payable establishes a cut-off date to receive and process invoices from the previous fiscal year. The AP staff works diligently with departments to make sure that invoices are submitted in timely. Going forward, amendments have been made to the Accounts Payable end-of-year process in order to more effectively capture all accruable expenses. Accounts Payable has taken steps to extend the initial accrual cut-off date as well as provide for a longer accrual period following the initial cut-off date. Also, with the implementation of AvidXchange, the City's new electronic invoice routing system, AP staff will be able to track invoices more efficiently.

Specifically, in reference to the \$155,925 disbursement, which was a reimbursement to the Pasadena Unified Court for state mandated fees collected by the City of Pasadena, the documentation provided for these types of transactions furnish a breakdown of the number of citations and the amounts collected for various penalties. This court payment breakdown document is signed by the Municipal Services supervisor and countersigned by the City Treasurer. For future payment requests, Accounts Payable has requested the Treasury division to submit the corresponding report that is generated from the parking system as back-up documentation to be attached to its request for payment. Accounts Payable will continue to require sufficient back-up documentation from departments for all invoices and other payment request.

With respect to the auditor's recommendation to enter the activity periods for each invoice received into the City's accounting software, this function is currently not available in PeopleSoft. The City is presently soliciting proposals to engage a new ERP system citywide. Accounts Payable will explore the options to accomplish the purpose of the auditor's recommendation in the course of implementing the new accounting system.

12-02 – Personnel File Requirements

To test the City's controls over payroll, we selected a sample of forty (40) City employees. During our analysis, we noted four (4) out of forty (40) employees selected for testing did not have documents validating information on their I-9 forms.

Reform and Control Act of 1986 (IRCA) requires that all employers verify the employment eligibility and identity of all employees hired to work in the United States after November 6, 1986. Compliance with IRCA is documented through the completion and maintenance of Employment Eligibility Form I-9.

#### Recommendation

While new Personnel File Requirements have been developed over time and firmly implemented within the past four years (per discussion with Human Resources Manager), there are no monitoring procedures within the Human Resources Department for personnel files that have missing requirements. To ensure federal compliance of the IRCA, we suggest that the City actively seek to maintain complete records for each City employee. We suggest that monitoring procedures be developed and implemented which will periodically review personnel files for missing required documents (Form I-9 and copies of the supporting documents).

#### Management's Comments Regarding Corrective Actions Planned

The City agrees with the recommendation and will implement it.

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

##### 12-03 – AIDS HIV Early Intervention – CFDA #93.915

Federal Agency's name: Department of Health and Human Services

Passed-through entity's name: County of Los Angeles

#### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The County of Los Angeles Public Health, Pass-through Agency, requires verification of the client's Los Angeles County residency and income shall be conducted on an annual basis. These requirements include the maintenance of documentation necessary to support eligibility re-determinations.

#### Finding

To test the controls over eligibility determination, we selected a sample of forty (40) case files at the City's Public Health Department. During our review, we noted that:

- Thirteen (13) case files did not have eligibility screening re-determinations completed in the required timely manner.
- Sixteen (16) case files did not contain support for the eligibility screening re-determination to show that eligibility determination was completed in the required timely manner.

#### Recommendation

We suggest that the City strengthen its eligibility determination procedures and take steps to ensure that proper documentation is kept for it in the case file.

#### Management's Comments Regarding Corrective Actions Planned

The City is taking additional steps to ensure that the files are adequately maintained to support eligibility requirements. These steps include:

1. The Front Office Staff, which are the case managers for every AIDS client, will be required to complete the eligibility screening and obtain copies of the required documents for every case (file) assigned to them.

2. The Program Director or Intake Specialist is required to complete an AIDS File Review once eligibility screening is completed by Front Office Staff.
3. The Front Office Staff will check for annual eligibility screenings prior to the receipt of any services.

#### 12-04 – Supportive Housing – CFDA #14.235

Federal Agency's name: Department of Housing and Urban Development (HUD)  
Passed-through entity's name: N/A

#### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *June 2012 OMB Circular A-133 Compliance Supplement* states HUD may provide grants to pay for a portion of the actual operating costs of supportive housing. Assistance for operating costs is available for up to 75% of the total costs in each year of the grant. The non-Federal entity (sub-recipient) must pay with its own funds the percentage of the actual operating costs not funded by HUD. At the end of each operating year, the non-Federal entity must demonstrate that it has met its share of the costs for that year (24 CFR section 583.125). Beginning with 1999 grants, all funding for supportive services must be matched by 25% funding from non-Federal entity (Pub. L. No. 105-276).

#### Finding

During our review of the "cash match" reports, we noted that sub-recipients were not matching the 25% match requirement.

#### Recommendation

We suggest that the required matching from the sub-recipients for the support services funding should be properly implemented to adhere to the compliance requirements.

#### Management's Comments Regarding Corrective Actions Planned

Sub-recipients matching for the support services funding has been properly implemented in the monthly match report in fiscal year 2012-13.

#### 12-05 – Community Development Block Grant – CFDA #14.218

Federal Agency's name: Department of Housing and Urban Development  
Passed-through entity's name: N/A

#### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *June 2012 OMB Circular A-133 Compliance Supplement* requirements for sub-recipient states that the pass-through entity is responsible for monitoring the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. It requires the follow-up to ensure corrective action is taken for the noted deficiencies.

#### Finding

During our review of the sub-recipient monitoring, we noted the City did not follow up with findings issued for corrective action. The City risks noncompliance with sub-recipient requirements as set forth in accordance with U.S. Department of Housing and Urban Development guidelines (specifically the Community Program Development Grantee Monitoring Handbook, Chapter 2 as well as 24, CFR 570 et seq.).

Recommendation

We suggest that the required matching from the sub-recipients for the support services funding should be properly implemented to adhere to the compliance requirements.

Management's Comments Regarding Corrective Actions Planned

The corrective action was requested as necessary from sub-recipient. The City will develop a checklist or log to document the issues and resolutions resulting from the monitoring.

**CITY OF PASADENA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2012**

The following is the status of prior audit findings:

11-01 – Accrual of Payables

During our testing of unrecorded liabilities, we selected a sample of thirty (30) material cash disbursements that occurred subsequent to fiscal year-end and reviewed support to ensure that they were accrued in accordance with accounting requirements. The results of our testing showed that two (2) of the thirty (30) disbursements were not adequately accrued. The total of the two (2) disbursements totaled \$363,413. During further discussion with the Accounts Payable Division, it was noted that accounts payable had an initial accrual cut-off of July 15, 2011, for accrual of expenses related to fiscal year 2011. For invoices that were received after this date, the Finance Department would accrue the expenses if the invoice was dated June 30, 2012 or earlier, and the value of the invoice was \$250,000 or more. We consider these inadequate procedures as the City may fail to accrue invoices that are dated after June 30, 2011, but is billing for activity that occurred before or goods that were received before the fiscal year-end.

Recommendation

We recommend that the City's Accounts Payable Division enter the activity periods for each invoice received into the City's accounting software, PeopleSoft. This provides the Finance Department the ability to do query searches based on activity date to assist in its determination of accounts payable completeness and accuracy.

Also, it is our opinion that the City's materiality threshold of \$250,000 be lowered to a more reasonable amount.

Management's Comments Regarding Corrective Actions Planned

The City has already taken steps to reduce the threshold for accrual and will take additional steps to improve this year-end process by setting appropriate thresholds, providing for a longer accrual period, and investigating the possibility of using the additional software feature. This year-end procedure has been in place for a number of years.

Current Year Status

Item completed. The City initiated new procedures for accrual of payables for the fiscal year ended June 30, 2012. Accounts Payable staff was instructed to accrue all payables regardless of amount through August 31, 2012. After the August deadline, the materiality threshold was increased to \$25,000. With respect to the auditor's recommendation to enter the activity periods for each invoice received into the City's accounting software, this function is currently is not available in PeopleSoft. The City is presently soliciting proposals to engage a new ERP system citywide. Accounts Payable will explore the options to accomplish the purpose of the auditor's recommendation in the course of implementing the new accounting system.

11-02 – Need to Improve Control over Paramedic Billing and Collections

During our review of the accounts receivable, we noted that the recorded Paramedic Receivables as of June 30, 2011, were over \$3 million with allowance for doubtful accounts calculated as 50% of the receivable amount. Fiscal year 2011 is the second year that the City contracted a third party to perform billing and collection for Paramedic Receivables. The total in the year-end accounts receivable aged report provided by the City's contractor does not have the same exact balance as the monthly reconciliation that was presented for audit purposes because the City is unable to obtain an accurate report from its contractor. We reviewed the report that the City obtained from the contractor

which shows a summary of monthly billing amounts and collections and noted that there is a column for "Unbilled and Write Off" that amounted to over \$1 million. Per our inquiry with City personnel, this amount represents amounts that are not billed pending additional information to complete the billing, that are contractual write-offs, or are simply not billable. As a best practice, a year-end aging report should be periodically reviewed for old and slow-paying accounts. Additionally, the City should be able to obtain a detail of the unbilled and write-off balance to be reviewed and ensure that there have not been any write-offs unauthorized by the City. Fiscal year 2011 was the second year of this significant deficiency (see 10-01).

#### Recommendation

We recommend that the City continue its effort in working together with the contractor to improve control over billing and collection of the Paramedic Receivable or consider hiring another vendor.

#### Management's Comments Regarding Corrective Actions Planned

The City agrees with this finding. It appears that the City's former contractor does not follow best practices and has been unable to provide reports that meet the City's requirements. This is one of the reasons that the City has chosen to change vendors for Paramedic billings. The City is confident that the reports provided by the new vendor will fully address this finding.

#### Current Year Status

Item completed. The City hired a new vendor effective December 10, 2011. The reports provided by new vendor are easier to understand, comply with accounting principles generally accepted in the United States of America, and agree to the City's general ledger. The City's Collections Section staff continues to aggressively attempt collection of receivables established by the previous vendor.

#### 11-03 – Long Outstanding Receivables

During our analysis of long time outstanding receivables, we noted a material receivable included in the general ledger for which the City did not expect to receive payment. Upon further client inquiry, it was noted the receivable had been settled in March of 2011 when the State received payment and the City had failed to remove it from its books. Once proper documentation was received, the City did record this transaction.

#### Recommendation

We recommend that the Finance Department review all pending material long outstanding receivables at year-end and consider their appropriateness.

#### Management's Comments Regarding Corrective Actions Planned

The City did remove this from the books upon receipt of proper documentation. At issue was receipt of a copy of the reconveyance documenting the transaction involved. The City is very diligent in not removing obligations from the books until appropriate to do so. The City agrees that a more thorough review and better documentation of the year-end review is appropriate.

#### Current Year Status

Item completed. The City reviewed all material long term receivables for the fiscal year ended June 30, 2012, and believes them to be collectable.

#### 11-04 – Capital Asset Cycle

During our walkthrough of the City's capital asset cycle, the following were noted:

- Inventories of capital assets kept in logs at various departments are not regularly reconciled to PeopleSoft, the City's system of record,
- Construction in process (CIP) is only cycled to completed assets on an annual basis, and
- PeopleSoft system has some software errors that allow capital assets to potentially depreciate beyond their cost.

#### Recommendation

To enhance internal controls over capital assets, we recommend that the City review its listing of capital assets by department twice a year off-cycle to the annual audit (i.e., March and September), requiring certification from the department's signatory authority over the accuracy of the inventory. This would alleviate much of the loading and unloading of capital assets close to year-end and spread the work throughout the year.

#### Management's Comments Regarding Corrective Actions Planned

The City agrees with this finding. Finance and the Department of Information Technology (DoIT) are working together to identify a solution to the PeopleSoft Asset Management system errors. Current resources will make it difficult to work on off cycle inventories twice a year, but the City will enhance procedures to ensure confirmations of accurate and timely inventories from all Departments.

#### Current Year Status

Partially completed. In fiscal year 2012, Finance and DoIT worked together and identified some possible solutions to resolve PeopleSoft Asset Management errors. These steps were paused as the City started a process of acquiring a new or upgrading the current ERP system. Finance added requirements for an effective capital asset system for the ERP system.

#### 11-05 – Personnel File Requirements

To test the City's controls over payroll, we selected a sample of forty (40) City employees. During our analysis, we noted the following:

- Six (6) out of the forty (40) employees selected for testing did not have an Employment Eligibility Verification Form I-9 in their personnel file.
- Seven (7) of the forty (40) employees selected for testing did not have the necessary documents included in their personnel file that would allow us to verify information on the Form I-9 (i.e., drivers license, social security card, birth certificate, or passport).
- Six (6) of the forty (40) employees selected for testing did not have an application included in their personnel file.

Reform and Control Act of 1986 (IRCA) requires that all employers verify the employment eligibility and identity of all employees hired to work in the United States after November 6, 1986. Compliance with IRCA is documented through the completion and maintenance of Employment Eligibility Form I-9. Per further discussion with Management, we noted that there were no monitoring procedures within the Human Resource Department to ensure that all files are complete, having no missing required documents.

#### Recommendation

To ensure federal compliance of the IRCA, we suggest that the City actively seek to maintain complete records for each City employee. We suggest that monitoring procedures be developed and implemented, including a periodic review of personnel files for missing required documents (i.e., Employment Eligibility Form I-9 and copies of the supporting documents).

### Management's Comments Regarding Corrective Actions Planned

The City agrees with this finding. Over the past several months City staff audited the I-9 records, identified missing information, and has completed obtaining the records and updating the files. The I-9 forms are maintained in a separate file and the verification is kept in the personnel file.

### Current Year Status

Item completed. All files were reviewed and brought into compliance.

### 11-06 – Community Development Block Grant – CFDA #14.218 and CFDA #14.253

Federal Agency's name: Department of Housing and Urban Development

Passed-through entity's name: N/A

### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *March 2011 OMB Circular A-133 Compliance Supplement* requirements for reporting state that the recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. Section 1512 of ARRA (*American Recovery and Reinvestment Act*) includes reporting requirements applicable to recipients of awards under ARRA. OMB has issued many documents that provide guidance on the reporting requirements under ARRA (located at ([http://www.whitehouse.gov/omb/recovery\\_default/](http://www.whitehouse.gov/omb/recovery_default/))). Among them, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009), provides relevant information for the audit procedures. The M-09-21 guidance covers the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model.

### Finding

The ARRA 1512 is a quarterly report that is submitted via the FederalReporting.gov website. This report is used by the Federal Government to track the progress on its American Recovery and Reinvestment Act funding.

The CDBG program is currently reporting the ARRA 1512 Report incorrectly. Staff is currently reporting the ARRA 1512 report as if they receive funding through Federally Awarded Contracts. However, CDBG receives its funding through Grant funding. After reviewing all four of the quarterly ARRA 1512 reports for the fiscal year 2011, we noted the following consistent mistakes:

- CDBG staff have been interpreting that the "Received/Invoiced" is the total amount that has been invoiced to the CDBG grant by contractors. In addition, staff is not currently reporting any "Expenditure" amount on the ARRA 1512 Report. This is the method used by Contractors of a Federally Funded Contract, not agencies receiving Grant funding.
- The program is receiving its funding from grants, therefore, the "Received/Invoiced" amount is supposed to be the total amount of ARRA 1512 funding that has been received to date through drawdown, while "Expenditure" is to be the expenditure amount that the grant has incurred to date.

Also during our analysis of the ARRA 1512 report, we noted an inadequate review process of the quarterly reports prior to their submission to HUD. Per further discussion with the client, it was noted that the Housing Department relies on HUD's review of the report to determine whether the information is correct.

### Recommendation

We recommend that CDBG correct the ARRA 1512 report going forward. According to the FederalReporting.gov website, all errors should be corrected in the following period if they are not recognized by the 21<sup>st</sup> of the month in which the report is being submitted. We also suggest strengthened communication between the Housing Department and the Finance Department to ensure that accurate data is submitted to HUD in a timely manner.

### Management's Comments Regarding Corrective Actions Planned

Commencing in January 2012, Housing Department CDBG staff will prepare/review/submit the ARRA 1512 quarterly report in the manner specified by the audit comments. Housing Department CDBG staff will communicate with the Finance Department in a timely manner to ensure that the ARRA 1512 report is accurate before submitting it to HUD.

### Current Year Status

Item completed.

### 11-07 – Supportive Housing – CFDA #14.235

Federal Agency's name: Department of Housing and Urban Development  
Passed-through entity's name: N/A

### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *March 2011 OMB Circular A-133 Compliance Supplement* requirements for reporting state that the recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. Section 1512 of ARRA (*American Recovery and Reinvestment Act*) includes reporting requirements applicable to recipients of awards under ARRA. OMB has issued many documents that provide guidance on the reporting requirements under ARRA (located at ([http://www.whitehouse.gov/omb/recovery\\_default/](http://www.whitehouse.gov/omb/recovery_default/))). Among them, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009), provides relevant information for the audit procedures. The M-09-21 guidance covers the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model.

### Finding

The ARRA 1512 is a quarterly report that is submitted via the FederalReporting.gov website. This report is used by the Federal Government to track the progress on its American Recovery and Reinvestment Act funding.

During our review of the calendar year second quarter ARRA 1512 report, we noted that the "Expenditure" item was incorrect. Through further inquiry with Supportive Housing staff, we noted that this item had not been updated since the calendar year first quarter submitted ARRA 1512 report. We also noted that there is no review by Management of these reports prior to their submission to HUD.

### Recommendation

We suggest strengthened communication between the Housing Department and the Finance Department to arrive at the financial data presented in the reports. Furthermore, we suggest that the Supportive Housing program implement a review policy so that the report is reviewed prior to submission.

### Management's Comments Regarding Corrective Actions Planned

Housing Department CDBG staff will communicate with the Finance Department in a timely manner to ensure that the ARRA 1512 report is accurate before submitting it to HUD. Prior to submittal, the report will be reviewed by the Housing Director or his designee.

### Current Year Status

Item completed.

### 11-08 – Supportive Housing – CFDA #14.235

Federal Agency's name: Department of Housing and Urban Development  
Passed-through entity's name: N/A

### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *March 2011 OMB Circular A-133 Compliance Supplement* requirements for reporting state that the recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. Section 1512 of ARRA (*American Recovery and Reinvestment Act*) includes reporting requirements applicable to recipients of awards under ARRA. OMB has issued many documents that provide guidance on the reporting requirements under ARRA (located at ([http://www.whitehouse.gov/omb/recovery\\_default/](http://www.whitehouse.gov/omb/recovery_default/))). Among them, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009), provides relevant information for the audit procedures. The M-09-21 guidance covers the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model.

### Finding

The APR report is an annual report that is required to be submitted by the Supportive Housing program. During our audit procedures, we were unable to review the supporting documentation related to the Homeless Assistance Reporting Period section of the APR report due to the Supportive Housing staff being unable to locate this information within their records. This does not conclude that the APR report is being presented incorrectly, but instead that we were unable to confirm whether the information being reported is correct.

### Recommendation

To ensure that all reported data in the APR report can be confirmed and substantiated, we suggest that the Supportive Housing program improve its record keeping system to better safeguard and store its records relating to financial reports.

### Management's Comments Regarding Corrective Actions Planned

Commencing in January 2012, Supportive Housing staff will take steps to improve its records management system relating to financial reports.

### Current Year Status

Item completed.

11-09 – Supportive Housing – CFDA #14.235

Federal Agency's name: Department of Housing and Urban Development  
Passed-through entity's name: N/A

Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

The *March 2011 OMB Circular A-133 Compliance Supplement* requirements for sub-recipient monitoring state that the pass-through entity is responsible for monitoring the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Finding

Sub-recipient Monitoring is generally required to be conducted for each sub-recipient on an annual basis. It is acceptable for the program to monitor a sub-recipient for two fiscal years if they are unable to review them annually. All sub-recipient agreements are for one year and can be extended for an additional year with the permission of the City Council.

During our review of the City's sub-recipient monitoring review for Affordable Housing Services (AHS) Navarro House, we noted the following relating to internal controls and their accounting systems.

- Follow up site visits must be conducted to verify compliance. Information available to assist us in determining whether follow up occurred was an email chain confirming the timing of the follow up. This documentation did not allow us to confirm whether the internal control and accounting system issues noted during the monitoring of the sub-recipient had been addressed by the sub-recipient in a timely manner.
- Related to the fiscal years 2009 and 2010 sub-recipient monitoring review of AHS Navarro House, we noted that the sub-recipient had the same internal control and accounting system issues that were noted during the City's review in 2008. The City performed those same follow up procedures during the fiscal years 2007 and 2008 review as it did during the current review. The City should strengthen its follow up procedures to ensure sub-recipients remain in compliance with their contracts within a reasonable timeframe.

Recommendation

We recommend that the City implement a sub-recipient watch list that documents any sub-recipients who have internal control or accounting system issues. For sub-recipients with significant or repetitive findings noted, the City would then monitor the sub-recipient each year prior to signing a sub-recipient agreement for the following fiscal year. Furthermore, if the sub-recipient does not address all findings and properly maintain superior status for the following two years, they should no longer be a sub-recipient.

We also suggest that the City develop a formal checklist, which will help document the issues that arose during the review and the follow up procedures that took place, and whether the sub-recipient had adequately mitigated all issues that were identified.

Management's Comments Regarding Corrective Actions Planned

The City will as recommended develop an internal watch list and will monitor sub-recipients with internal control or accounting system issues to ensure that flagged issues have been resolved prior to entering into a new sub-recipient agreement.

The City currently has an audit checklist utilized in performing the fiscal monitoring. The City will develop an additional checklist or log to document the issues and resolutions resulting from the fiscal monitoring.

### Current Year Status

Item completed.

### 11-10 – Preparation and Reconciliation of the Schedule of Expenditure of Federal Awards

Federal Agency's name: Department of Housing and Urban Development

Passed-through entity's name: N/A

### Criteria/Specific Requirement Including Statutory Regulation/Citation for the Finding

*OMB Circular A-133 Compliance Supplement* requirements for reporting state that the Schedule of Expenditures of Federal Awards is required to be presented.

### Finding

The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the City's 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 financial statements. The preparation of the schedule and of the City's financial reports is a significant undertaking. The reports require coordination and input from internal and external parties. The preparation is highly dependent on information from internal and external parties being timely and fairly stated and the result of these key dependencies is that the City is exposed to significant delays in the preparation of complete and fairly stated financial information. Such was the case with regard to the 2011 schedule of expenditures of federal awards when a program was not detected by management and an outstanding loan under the U.S. Department of Housing and Urban Development Section 108 program – Community Development Block Grant program was not disclosed until after the schedule of expenditures of federal awards was in the final audit stages. Footnote disclosure of various loan programs was also inadvertently deleted in the year ended June 30, 2010, notes to the schedule of expenditures of federal awards.

### Recommendation

The Finance Department should coordinate with other departments to arrive at timely and fairly stated financial data presented in the reports. This should include, but not be limited to, at least semi-annually schedule of expenditures of federal awards preparation with a reconciliation to other reports filed with federal agencies and/or interim financial reports. There should also be an assurance from the departments to the Finance Department that all data in the reports is fairly stated.

### Management's Comments Regarding Corrective Actions Planned

The Finance Department will increase our level of coordination with departments to prepare and reconcile a semi-annual schedule of expenditures of federal awards with reports to federal agencies or interim financial reports in a timely manner. We will also obtain timely confirmation that all data in the reports is fairly stated. The procedures described above have been added to our year-end checklist.

### Current Year Status

Item completed.