

CITY OF PASADENA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2015

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CITY OF PASADENA

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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*

To the Honorable Mayor and Members of the City Council
City of 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 City of Pasadena, California, (the City) as of and for the year ended June 30, 2015, 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 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-001 through 2015-025, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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 2015-026 through 2015-030, described in the accompanying schedule of findings and questioned costs to be significant deficiencies.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-031.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Brea, California
February 24, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pasadena, California (the City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's 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 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 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, 2015.



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

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-032. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-032, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 24, 2016, which contained an unmodified opinion 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 the purposes of additional analysis as required by OMB Circular A-133 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. 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 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
February 24, 2016

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through the State of California			
Department of Agriculture:			
Supplemental Food Program for Women, Infants, and Children	10.557	05-45781	\$ 1,005,928
Passed through the State of California			
Department of Public Health:			
State Administrative Matching Grants for the SNAP *	10.561	13-20496	602,987
Total U.S. Department of Agriculture			1,608,915
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant *	14.218		2,100,738
Emergency Solutions Grants Program	14.231		137,408
Shelter Plus Care	14.238		120,008
Home Investment Partnerships Program *	14.239		1,770,050
Continuum of Care Program *	14.267		1,572,223
Section 8 Housing Choice Vouchers *	14.871		11,677,559
Passed through the City of Los Angeles			
Housing Opportunities for Persons with AIDS	14.241	C-121052	92,694
Total U.S. Department of Housing and Urban Development			17,470,680
<u>U.S. Department of Justice</u>			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		38,853
Equitable Sharing Program	16.922		147,099
Total U.S. Department of Justice			185,952

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

(CONTINUED)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Labor</u>			
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act - Adult	17.258	K491014, K594757	668,985
Workforce Investment Act - Veterans 15%	17.258	K386293	84,024
Passed through the County of Los Angeles			
Workforce Investment Act - LA Youth Jobs Phase II	17.258	IA0614	358,491
Workforce Investment Act - LA Youth Jobs Phase IV	17.258	IA0314	44,229
Sub-total			1,155,729
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act - Youth	17.259	K491014, K594757	616,779
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act - Dislocated Worker	17.278	K491014, K594757	605,286
Workforce Investment Act - Rapid Response	17.278	K594757	253,849
Workforce Investment Act - Rapid Response Layoff Aversion	17.278	K594757	15,799
Workforce Investment Act - Veterans 25%	17.278	K386293, K594757	208,098
Passed through the City of Inglewood			
Workforce Investment Act - CA Multi-Sector Partnership 25%	17.278	13WO60	155,518
Sub-total			1,238,550
Total Workforce Investment Act Cluster			3,011,058
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act - Foster Youth	17.207	K491014, K595994	273,223
Passed through the City of Inglewood			
Workforce Investment Act - National Emergency Grant	17.277	11W109	64,804
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act - WAF Vets 15% 61.60	17.528	K491014	28,196
Total U.S. Department of Labor			3,377,281

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

(CONTINUED)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation:			
La Loma Bridge	20.205	HP21L-5064-(020)	188,612
Route 210 Freeway Soundwalls	20.205	HPLU-5064(058)	333,281
East Colorado Bl Specific Plan	20.205	CML-5064(067)	66,147
Prevent Maint Asphalt 2011-2015	20.205	RPSTPLE-5064(070)	934,693
Pedestrian Safety Enhance	20.205	HSIPL5064-(074)	52,384
TS Improve at Pas Ave/Walnut ¹	20.205	HSIPL5064-(075)	2,219
LTSignal Phs Colo/OraGrv/Holly	20.205	HSIPL5064-(076)	35,756
Sub-total			<u>1,613,092</u>
Passed through the State of California			
Department of Transportation:			
Transit Planning Student Internship	20.505	145.SCF02025.01, 145.SCG03174.01	11,643
Passed through the State of California			
Department of Transportation:			
Increase Local Transit Capacity for Improved Jobs Access	20.516	CA-37-X171	179,809
Passed through the State of California			
Department of Transportation:			
Selective Traffic Enforcement Program	20.600	PT14105	73,932
Selective Traffic Enforcement Program	20.600	PT1539	210,721
UCB Sobriety Checkpoint Grant	20.600	SC14310	51,584
OTS Safer Streets Pasadena	20.600	PS1513	43,290
Sub-total			<u>379,527</u>
Total U.S. Department of Transportation			<u>2,184,071</u>

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

(CONTINUED)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Treasury</u>			
Direct Program:			
Treasury Forfeiture Fund Program	21.000		13,939
Total U.S. Department of Treasury			13,939
<u>National Endowment for the Arts</u>			
Direct Program:			
NEA Our Town Project	45.024		9,241
Total National Endowment for the Arts			9,241
<u>U.S. Department of Health and Human Services</u>			
Direct Program:			
Food Inspection Tablet Program	93.103		75,492
CDC Reach	93.304		209,899
Direct Program:			
Special Projects of National Significance (HRSA)	93.928		349,571
Special Projects of National Significance (SAMHSA)	93.928		30,947
Sub-total			380,518
Passed through the State of California			
Department of Health Services:			
Child Lead Poison Prevention	93.197	14-10028	93,091
Immunization Subvention Funds	93.268	13-20337	57,705
Centers for Disease Control and Prevention - TB Local Assistance	93.283		32,217
Child Health and Disability Prevention Program - Gateway	93.778		263,861
Passed through the State of California			
Department of Health Services:			
MCH Black Infant Health *	93.994	201061	294,656
MCH County and Comprehensive Prenatal Outreach *	93.994	201061	125,020
Sub-total			419,676

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

(CONTINUED)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through the County of Los Angeles			
Public Health Emergency Preparedness	93.069	PH-002221-3/4	244,478
AIDS HIV Early Intervention	93.914	H209212	1,938,874
Passed through the County of Los Angeles			
Alcohol & Drug Abuse/Mental Hlt Ser Blk Gnt - AODPS	93.992	H702536	200,000
Alcohol & Drug Abuse/Mental Hlt Ser Blk Gnt - Gen Relief	93.992	H700118	11,870
Sub-total			211,870
Total U.S. Department of Health and Human Services			3,927,681
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Assistance to Firefighters Grant	97.044		689,217
Passed through the County of Los Angeles:			
State Homeland Security Grant Program	97.005	2013-0019, OES#37-00000	3,317
Passed through the City of Los Angeles:			
Urban Areas Security Initiative *	97.067	2013-0019, OES#37-95050	282,985
Total U.S. Department of Homeland Security			975,519
Total Federal Expenditures			\$ 29,753,279

* Major Program

1 Per request from Public Works, the City made a correction to reallocate \$28,441 of personnel charges to other projects.

General Comments:

Note A: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note B: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note C: Total amount provided to subrecipients during the year was \$2,055,043.

CITY OF PASADENA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include 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 is 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 accompanying schedule is presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the accrual basis of accounting.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
14.218	Community Development Block Grant
14.239	Home Investment Partnerships Program
14.267	Continuum of Care Program
14.871	Section 8 Housing Vouchers
93.994	Maternal and Child Health Services Block Grant
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B program \$892,598

Auditee qualified as low-risk auditee? yes no

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2015-001 – Depreciation for Capital Assets Placed in Service

Material Weakness

Condition and Criteria

Generally accepted accounting standards require that completed construction in progress assets be placed in service and properly depreciated according to the City's depreciation policy. During our audit, we noted that the City recognized completed construction in progress assets, however, failed to place those completed assets in service and properly recognize a corresponding depreciation expense to those assets.

Cause and Effect

Capital assets are being maintained on several excel spreadsheets, which, inherently increases the risk for error. As a result, the City erroneously understated Capital assets by approximately three million dollars (\$3 million); resulting in a restatement to the City's Net Position at June 30, 2015.

Recommendation

We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action

The City staff identified this issue and agrees with this recommendation and has made the necessary corrections to the financial records. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated Fixed Asset module.

Finding 2015-002 – Accounting and Financial Reporting for Capital Assets

Material Weakness

Condition and Criteria

Generally accepted accounting standards require that capital assets are properly reported and/or disclosed in the City's financial statements, separately for governmental-type and business-type activities. During our audit, we noted that the City erroneously accounted for \$6 million of business-type infrastructure assets in both the City's governmental-type activities and business-type activities. Thus, overstating governmental-type activities capital assets and net position balance at June 30, 2014 by \$6 million.

Cause and Effect

The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes of both governmental and business-type activities. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, capital assets and net position for governmental-type activities were restated by \$6 million.

Recommendation

We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. Additionally, the accounting of projects that cover both business-type and governmental-type activities will be separated to avoid this error in the future. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated Fixed Asset module.

Finding 2015-003 – Accounting for Successor Agency Assets

Material Weakness

Condition and Criteria

Generally accepted accounting standards require that capital assets are properly reported and/or disclosed in the City's financial statements, separately for governmental-type, business-type activities, and fiduciary assets. Upon dissolution of the Former Pasadena Community Development Commission (PCDC), all assets, including property held for resale and capital assets owned by the Former PCDC were to be transferred to the Successor Agency of the Former PCDC. During our audit, we noted that the City did not properly record assets that were transferred from the PCDC to the Successor Agency of the former PCDC.

Cause and Effect

The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes of both governmental and business-type activities. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, the City overstated governmental-type activities capital assets and net position balance at June 30, 2014, and also restated the fiduciary net position of the Successor Agency of the former PCDC.

Recommendation

We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. As this was a one-time correction related to the dissolution of Redevelopment, this error will not occur again. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated Fixed Asset module.

Finding 2015-004 – Accounting for Land Held for Resale

Material Weakness

Condition and Criteria

In 2010, the City purchased land and building (YMCA) for \$8.3 Million with the intention of preserving its historic value to the City; and with no intentions of selling the asset. However, the City erroneously recorded the asset as property held for resale, in which under generally accepted accounting principles, requires the asset to be recorded on both the fund level balance sheet and the City's government-wide statement of net position.

Cause and Effect

Due to the fact that the City did not have any intention on selling the asset, the asset should have been properly classified as a depreciable asset. In addition, by recording the asset at the fund level as property held for resale, the City overstated its fund level assets, thus, improperly calculating its major funds determination under GASB Statement No. 34.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation

We recommend that the City include in its year-end closing process, procedures to ensure that Land Held for Resale are recorded properly.

Management Response and Corrective Action

The City disagrees to the extent that the property was initially acquired with the intention of resale at a future time; however, the City agrees that once the determination was made not to sell the asset, the classification of the asset should have been changed. The reclassification has been made. The major fund determination outcome was not changed by this correction. The City has added an item to its year end checklist to review the recording and classification of Land Held for Resale.

Finding 2015-005 – Land Held for Resale and Major Fund Determination

Material Weakness

Condition and Criteria

In the prior fiscal year, the City intended to reclassify land to land held for resale (2 Condos on Mar Vista and 1 Condo on N. Allen), in the amount of \$530,000. As aforementioned, generally accepted accounting principles require that land held for resale to be recorded on both the fund level balance sheet and the Governmental Statement of Net Position.

Cause and Effect

The City properly reclassified land to land held for resale on the Government Statement of Net Position; however, failed to record the assets at the fund level. Thus, the general fund balance was understated, and the City improperly calculated its major fund determination.

Recommendation

We recommend that the City include in its year-end closing process, procedures to ensure that Land Held for Resale are recorded properly.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The major fund determination outcome was not changed by this correction. The City has added an item to its year end checklist to review the recording and classification of Land Held for Resale.

Finding 2015-006 – Accounting for Land Purchase

Material Weakness

Condition and Criteria

In 1989, the City purchased land (Concord Senior Housing) in the amount of \$1.4 million; since this time, the City has failed to record the land as an asset on the Statement of Net Position as required under GASB Statement No. 34.

Cause and Effect

The City does not utilize a capital asset module to identify and track capital asset purchases. The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. As a result, the City understated net position by \$1.5 million at June 30, 2014.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation

We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated Fixed Asset module.

Finding 2015-007 – Accounting for Construction in Progress

Material Weakness

Condition and Criteria

Generally accepted accounting standards requires that costs relating to projects be capitalized in the year in which they are incurred. During our audit procedures performed on capital assets it was noted that the City had expenditures incurred in previous years that were not capitalized until the current year. We also noted instances in which costs were capitalized in previous years, but reclassified as repairs and maintenance in the current year as it was determined they should not have been capitalized initially.

Cause and Effect

The City utilizes multiple excel spreadsheets to track and maintain capital asset balances for reporting purposes. Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. This results in assets not being correctly valued or depreciated and causes misstatements in net position due to items being expensed as opposed to capitalized and vice versa.

Recommendation

We recommend that the City immediately purchase and utilize a capital asset application that maintains, tracks and administers assets that have been purchased and placed in service. In addition, the application should also track the progress of the City's construction in progress, to ensure the accuracy of capital asset balances presented in the City's comprehensive annual financial report (CAFR).

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The Finance Department will be working with the other departments to ensure they understand the importance of initially classifying assets correctly. The City has purchased and is implementing an Enterprise Resource Planning (ERP) solution which includes an integrated Fixed Asset module.

Finding 2015-008 – Controls Surrounding the Recording of Capital Assets

Material Weakness

Condition and Criteria

It became apparent during our audit that a large majority of the City's capital assets and infrastructure are tracked manually using an excel spreadsheet. This process results in more opportunity for errors to occur, many revisions to the spreadsheet during the audit process, and is not an adequate method to track the large number of assets owned by the City.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Cause and Effect

Excel spreadsheets are inherently risky due to the possibility of human error, lack of automated internal security controls, and the lack of automated internal controls. Therefore, multiple accounting errors related to capital assets were identified and restated net position.

Recommendation

We recommend that a capital asset tracking and management system be implemented to maintain the City's significant capital assets, and assist in tracking acquisition dates, relating useful lives, and depreciation.

Management Response and Corrective Action

The City agrees with this recommendation and implemented a new Enterprise Resource Planning system, Tyler Munis, on July 1, 2015. A fixed asset module is part of this system and all assets are being transitioned from the excel spreadsheets to the Tyler Munis system.

Finding 2015-009 – Parking Cash Account

Material Weakness

Condition and Criteria

The City has a bank account that holds cash relating to parking revenues received. The account contains a cash balance but the City had recorded a receivable for the amount as opposed to recording the actual cash on hand.

Cause and Effect

Due to the fact that the account was recorded as an accounts receivable account, the City did not properly reconcile the account to ensure that the cash balance was accurately being classified and presented. As a result, the City's total cash balance was understated and accounts receivable balance was overstated; in which, the City recorded a reclassifying journal entry.

Recommendation

It is recommended that all cash accounts are properly reconciled to the GL at each year-end.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year end checklist to review the reconciliation of Parking Cash to the General Ledger.

Finding 2015-010 – Notes Receivable Balance with former PCDC

Material Weakness

Condition and Criteria

The City had an advance recorded with the Successor Agency of the Former PCDC in the amount of \$39 Million representing an agreement between the City and the Former PCDC that was denied as an enforceable obligation by the Department of Finance (DOF) during fiscal year 2013, and has continued to be denied through fiscal year 2015.

Cause and Effect

The advance should have been removed from the both the City and Successor Agency of the Former PCDC once it was denied. This resulted in a restatement of both governmental and fiduciary net position.

Recommendation

We recommend the City to remove this receivable from the books as an enforceable obligation to correct the error.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Management Response and Corrective Action

The City previously recorded this amount after receiving direction from the City's prior external audit firm and in consultation with Legal Counsel. Ultimately, this is a management decision based on expectations and evaluation of the probability of a favorable outcome to the City. While we continue to rank this with a positive probability of a favorable outcome, we acknowledge the auditor's advice that in the face of regulatory denial different accounting is recommended. This amount is still under appeal pending a court decision. The City has made the necessary accounting adjustments to reflect this change.

Finding 2015-011 – Accounting for Plan Check Fees

Material Weakness

Condition and Criteria

The City receives revenues for plan check fees relating to development projects ongoing. It was brought to our attention by management that these fees are paid for upfront prior to the projects commencing. Under GAAP accounting rules, the refundable portion should be considered unearned revenue until requirements have been met to consider the revenue earned.

Cause and Effect

A portion of plan check fees are considered refundable if the project is stopped or never completed. This resulting in a restatement of opening governmental fund balance.

Recommendation

We recommend the City to include in its year-end closing process, procedures to ensure that unearned revenue from plan check fees are properly recorded and classified.

Management Response and Corrective Action

As stated, the City's management discovered this error and has made the correction. The City has added an item to its year end checklist to adjust unearned revenues related to plan check fees.

Finding 2015-012 – Accounting for Underwriters Discount

Material Weakness

Condition and Criteria

During 2015, the City issued debt that resulted in an underwriters' discount of \$325K. Under Governmental Accounting, Auditing, and Financial Reporting Standards, an underwriters' discount is considered a use of current financial resources and thus recorded as an expenditure in the year it is incurred.

Cause and Effect

The City included this amount with bond issue discount to be amortized over the life of the debt. This resulted in an increase of governmental expenditures.

Recommendation

We recommend that the City to reclassify this amount as an expenditure, and to develop procedures ensuring that discounts are properly recorded in governmental funds.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year end checklist to review the recording of discounts.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-013 – Capitalized Interest Expense

Material Weakness

Condition and Criteria

Under generally accepted accounting principles, governments frequently incur interest cost in connection with the acquisition, construction, and improvement of capital assets. As such, related interest expense should be capitalized as a part of the cost of that asset. The calculation of the amount of interest to be capitalized considers the amount of capital outlay incurred on qualifying assets.

Cause and Effect

During our review, we noted that the City was using a simplistic calculation to determine the amount of interest to capitalize. The City capitalized interest based on a percentage of bond proceeds drawn down, net of interest revenue. This is an incomplete method in determining the proper amount of interest to capitalize in accordance with GASB Statement No. 62. Therefore, interest expense and Construction in progress, was improperly stated for prior years.

Recommendation

We recommend that the City include in its year-end process, procedures to ensure that interest is properly capitalized for proprietary related assets.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. . The City has added an item to its year end checklist to review and ensure that interest is properly capitalized.

Finding 2015-014 – Amortization of Premiums/Discounts

Material Weakness

Condition and Criteria

Under generally accepted accounting principles, the original issue premium or discount relating to the issuance of debt, is required to be amortized over the life of the debt.

Cause and Effect

It was discovered that the City had written off all premiums relating to business-type debt in 2013, thus improperly stating their business-type activities net position by roughly \$12 Million. This required an adjustment in the current year to restate their business-type net position by that same amount.

Recommendation

We recommend that the City ensure all premiums and discounts relating to long-term debt are being properly amortized over the life of the related debt.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records. The City has added an item to its year end checklist to review and ensure that all premiums and discounts related to long-term debt are being properly amortized.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-015 – Verification of Goods Received/Services Performed

Material Weakness

Condition and Criteria

When items are purchased, there is no verification that goods have been received or services have been performed prior to submitting invoices for payments. Also, the vendor master file is not being updated timely with new vendors and information relating to those vendors such as addresses, bank information, etc.

Cause and Effect

These weaknesses could result in payments being made for services never performed, or payments not being received by vendors because the incorrect information is on file.

Recommendation

We recommend that the City to develop procedures to ensure that vendor information is properly updated in the vendor Masterfile. In addition, we recommend the City to develop procedures to verify the receipt of goods or services prior to payment of goods or services.

Management Response and Corrective Action

The City agrees with this recommendation and made corrections to this process before the end of the 2014-2015 Fiscal Year. The vendor master file was reviewed as part of the implementation of the new Enterprise Resource Planning system, Tyler Munis, and will be reviewed at least annually as part of the 1099 issuance process.

Finding 2015-016 – Purchasing Controls

Material Weakness

Condition and Criteria

There were multiple instances during testing in which the purchase order date was after the invoice date.

Cause and Effect

The City changed ERP systems at the close of the fiscal year, and noted that there were numerous invoices received which required processing of payment that had no applicable purchase order in the system. In order to process payment, a purchase order had to be created after the services had already been performed and invoice had already been received.

Recommendation

We recommend the City to develop procedures (preferably automated procedures) to restrict vendor payments that do not have an approved and dated purchase order on file; therefore, ensuring that invoices are not paid without a valid purchase order.

Management Response and Corrective Action

The City agrees with this recommendation and is working to correct this practice.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-017 – Recording of Expenditures/Expenses

Material Weakness

Condition and Criteria

There were a number of transactions that related to the fiscal year 2014, but were recorded as expenditures during fiscal year 2015.

Cause and Effect

The City did not have in place an adequate year-end close and reconciliation process in place to ensure that expenses and expenditures are being properly reflected in the correct period. This resulted in budget schedules not properly reflecting actual activity during the fiscal period under general accepted accounting principles.

Recommendation

We recommend that the City develop and implement year-end close procedures ensuring that expenditures/expenses are being recorded in the proper period.

Management Response and Corrective Action

The City agrees with this recommendation and is working to correct this practice.

Finding 2015-018 – Accounts Payable Accrual

Material Weakness

Condition and Criteria

Generally accepted accounting principles require that goods and services rendered during the fiscal year, that have not been paid, to be accrued as an accounts payable until paid.

Cause and Effect

During our test work, we noted approximately \$600,000 in disbursements relating to services performed in FY 2015, which were not properly accrued for as of June 30, 2015.

Recommendation

We recommend the City implement a better review process for invoices received after the close of the fiscal year to ensure that all items are properly accrued for.

Management Response and Corrective Action

The City agrees with this recommendation and is working to correct this practice.

Finding 2015-019 – Recordkeeping for Expenses and Expenditures

Material Weakness

Condition and Criteria

There were a number of transactions in which the supporting documentation to justify the transaction and its amount was inadequate. This included items that did not have invoices but just check requests or internal invoices prepared by the City but not third party invoices provided by the vendors. This also included support that appeared to be hand altered with numbers being crossed out and changed. We were unable to determine when the change was made or what it was made for.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation

We recommend that the City ensure each transaction has adequate documentation to support it, including mainly third party documentation, and ensure that if a change is needed to an invoice, the City utilize a change form or process to better track who is making the change and why it is being made.

Management Response and Corrective Action

The City agrees with this recommendation and began implementing changes prior to the close of the 2014-2015 Fiscal Year.

Finding 2015-020 – Purchasing Card Controls

Material Weakness

Condition and Criteria

The City purchasing manual states that purchases under \$3,000 can use a p-card without additional authorization, given that the purchase does not qualify as a prohibited p-card transaction. We noted that in early fiscal year 2015, proof of authorization for transactions over the authorized amounts were not being properly tracked by the City, and minimal to no review of these transactions were being performed.

Recommendation

We recommend a thorough review is performed of transactions in excess of authorized amounts, and the proper approvals are obtained and recorded.

Management Response and Corrective Action

The City agrees with this recommendation. The entire purchasing card program was evaluated and re-implemented at the beginning of Fiscal Year 2016. As such, limits were reduced, the number of cards issued was reduced and user training with every card holder was conducted to ensure compliance with the policy.

Finding 2015-021 – Authorized Usage of Purchasing Cards

Material Weakness

Condition and Criteria

The City purchasing manual states that all p-card holders are required to have a signed p-card agreement on file, which typically occurs after the employee goes through the required p-card orientation in order to receive their card. We noted multiple instances in which no signed p-card agreement was on file for p-card holders actively using their cards.

Recommendation

We recommend that the City ensure all p-card holders go through the proper orientation and sign the required agreement prior to continued use of their p-cards.

Management Response and Corrective Action

The City agrees with this recommendation. The entire purchasing card program was evaluated and re-implemented at the beginning of Fiscal Year 2016. As such, limits were reduced, the number of cards issued was reduced and user training with every card holder was conducted to ensure compliance with the policy. During each user training the user was required to sign the p-card agreement before taking possession of their new card.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-022 – Usage of Ghost Purchasing Cards

Material Weakness

Condition and Criteria

During 2015, the City had items called “Ghost Cards” that were considered p-cards. These did not represent actual p-cards but rather agreements with excessive spending limits, often in excess of \$750,000, with frequently used vendors to expedite the process of getting invoices paid. These transactions had minimal controls or review surrounding them. While these transactions did have supporting invoices, there were no purchase order’s or contracts stipulating what was being purchased, for what quantity, and for what amount.

Recommendation

We recommend that the City cease use of these “Ghost Cards” and following the purchasing policies put in place to acquire goods and services and to process payments.

Management Response and Corrective Action

The City agrees with this recommendation. All “Ghost Cards” have been eliminated and individual contracts and/or purchase orders have been issued with the respective vendors.

Finding 2015-023 – Usage of Emergency Purchasing Cards

Material Weakness

Condition and Criteria

During 2015, the City had multiple “Emergency Cards” issued that had no spending limits and were to be used in case of emergencies, most specifically relating to IT. A card with no spending limits opens the City up to additional risks in the event it is used improperly.

Recommendation

We recommend that the City either put a limit on these cards, or cease the use of these and update the proper procedures to follow in the case of an IT emergency, and also specify in the purchasing manual what specifically is considered an IT emergency.

Management Response and Corrective Action

The City agrees with this recommendation. As of Fiscal Year 2016 the City Manager, Assistant City Managers and the Finance Director hold the only emergency cards. Instead of allowing cards with no limits, the respective cards have regular spending limits in line with other card holders on a day-to-day basis, and the emergency spending limits may only be activated during an emergency by contacting the card issuer and answering security questions.

Finding 2015-024 – Capitalization of Fuel Inventory

Material Weakness

Condition and Criteria

As a result of our audit procedures relating to inventory, it was noted that the City failed to capitalize the costs of purchased fuel, prior to the actual usage of the fuel.

Recommendation

We recommend the City to develop year-end procedures to ensure that Fuel Inventory is properly capitalized when purchased, and properly expensed when used.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Management Response and Corrective Action

The City has corrected the item. As the City tanks are replenished frequently, the City chooses to expense the costs of purchased fuel during the fiscal year. In order to correctly record fuel inventory at year end, the City will measure the fuel inventory at the fiscal year end and make a year-end fuel inventory adjustment accordingly.

Finding 2015-025 – Financial Statement Close Process

Material Weakness

Condition and Criteria

As a result of our audit procedures, it became apparent that the overall financial statement close process for the City is inadequate in order to close the records in a timely fashion. The following items are instances of those inadequacies:

- Bank reconciliations not being completed with six months of year-end
- Closing journal entries still being prepared six months after year-end
- Client proposed restatements due to improper reconciliations during the year and in the past
- The CAFR not being ready before December 31

Recommendation

We recommend that the City perform month-end close procedures no later than 30 days after the close of the previous month and include procedures such as the completion and management review of bank reconciliations, and review of manual journal entries. In addition, we recommend the City develop year-end closing procedures that ensure the timely completion and presentation of the CAFR within 6 months after the fiscal year end.

Management Response and Corrective Action

The City agrees with this recommendation. This is the first year that the City has not produced its CAFR and related financial reports prior to December 31. The delay has been due to the implementation of the new Enterprise Resource Planning system and staff vacancies. The City will complete its reconciliations, journal entries and financial reports in a timely manner for Fiscal Year 2016.

Finding 2015-026 – Outstanding Checks

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, we noted that the City had checks on their outstanding checklist that were, in certain instances, in excess of 3 years old.

Recommendation

We recommend that the City replenish their cash balance for these stale dated checks and if plausible, recognize a liability for these stale dated checks.

Management Response and Corrective Action

The City agrees with this recommendation and will establish an annual escheatment process for outstanding checks.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-027 – Petty Cash

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, it was noted that the City does not reconcile all petty cash accounts to the GL at year-end, and also that there is an excessive amount of petty cash on hand, in excess of \$100,000.

Recommendation

We recommend that all petty cash balances properly to the GL and that the City reduce the amount of petty cash on hand to a reasonable amount.

Management Response and Corrective Action

The City agrees with this recommendation and will reconcile all petty cash accounts at year-end. Additionally, the City will reduce or eliminate petty cash accounts for departments to reduce the overall exposure.

Finding 2015-028 – Vendor Master-files Edit List

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, it was noted that no independent review of the vendor Masterfile or edit listing is being performed, and no review of annual purchase volume is being performed.

Recommendation

We recommend that the Finance Department periodically review the vendor listing, include any changes made to that listing, as well as review annual purchase amounts to vendors to ensure vendors are being paid proper amounts, and no unauthorized changes to the vendor listing are made that would result in fraudulent or inaccurate payments being made during the year.

Management Response and Corrective Action

The City agrees with this recommendation. The Vendor Master File and related purchase volume will be reviewed at least annually as part of the 1099 process. Additionally, the maintenance of the Vendor Master File has been transferred out of Accounts Payable to Purchasing. This transfer ensures that those individuals with the ability to issue a payment do not have access to modify vendor records.

Finding 2015-029 – Timecard Approval

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, it was noted that there were certain instances in which employees at comparable levels were able to approve each other's time cards for specific pay periods.

Recommendation

We recommend that employees have specific approvers in positions above their level to ensure all time input is accurate and properly completed.

Management Response and Corrective Action

The City agrees with this recommendation and the change has been implemented.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2015-030 – Active Pay Employees

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, it was noted that for acting pay employees (grade-scale increases) Human Resources does not possess an efficient way to ensure that employees are returned to their original rate of pay.

Recommendation

We recommend a procedure be developed to ensure that these employees are returned to their original rate of pay timely and efficiently.

Management Response and Corrective Action

The City agrees with this recommendation and is taking steps to ensure that employees are returned to their original rate of pay timely and efficiently. We anticipate a tracking system will be available in our new Enterprise Resource Planning system, Tyler Munis, which will assist with this effort.

Finding 2015-031 – Compliance and Other Matters

Fraud Hotline

During the fiscal year under audit, we noted that the City's fraud hotline was directly handled by the City Controller. The City Controller had the direct and sole discretion to communicate issues, concerns or fraudulent activity directly to Council. In addition, the City Controller was charged with following up and also communicating issues to the City Attorney directly. We recommend that the Fraud Hotline be handled by an individual independent of the Finance Department and any other Departments outside of the City Manager or City Attorney offices.

Employee Training

During our audit, we noted that employees had not been trained on how to communicate fraud or on the City's policies concerning fraud, ethics and conflicts of interest. We recommend the City to periodically and consistently train employees on these policies.

Debt Covenant Requirements

The City failed to meet Debt Covenant Reporting requirements for the fiscal year ended June 30, 2015. We recommend that the City, as a part of its monthly close process, perform a test on its Debt covenant requirements to determine if the City is in compliance. In regards to reporting, we recommend the City to complete its financial statements and financial statement audits within the covenant reporting requirements.

Management Response and Corrective Action

Fraud Hotline

Due to budget constraints the City's Internal Auditor was laid off. In the absence of an Internal Auditor the Controller was directed to implement and maintain the City's fraud hotline. The online reporting portal automatically notified the City Attorney, Assistant City Manager, Director of Finance, Human Resources Director, and the Controller. Voicemail reports were sent solely to the Controller, who then forwarded reports to the City Attorney, Assistant City Manager, Director of Finance, and Human Resources Director. Upon hiring an Internal Audit Manager all fraud hotline activities were promptly transferred to the Internal Audit Manager.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Employee Training

The Human Resources Department has developed a three step process for training on City Ethics and means of reporting fraud, waste, or abuse. All employees were required to complete on line training, The Senior Management Group received comprehensive training, materials were provided for each Departments to discuss in their staff meetings. Included in the City's FY 2017 training schedule are four sessions which will be conducted by an attorney.

Debt Covenant Requirements

Due to staff turnover and implementation of the new Enterprise Resource Planning software, yearend closing and Comprehensive Annual Financial Report was delayed. On December 17, 2015 the City of Pasadena filed a "Municipal Secondary Market Disclosure Information Notice of Expected Failure to File" to the Municipal Securities Rulemaking Board (MSRB) EMMA system through the City's Disseminating Agent, Digital Assurance Certification (DAC). The Notice specifically stated that the City's CAFR will not be released by the due date as specified in the Annual Continuing Disclosure Reports, but instead, will be filed by the end of February 2016. The City will complete its Debt Covenant Reporting requirements in a timely manner for Fiscal Year 2016.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015-032

Noncompliance

Procurement, Suspension, and Debarment

Federal Program

CFDA number: 14.218

Title: Community Development Block Grant

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

Grant Number: N/A

Criteria

The March 2014 OMB Circular A-133 *Compliance Supplement* says to select a sample of procurements and verify compliance with other procurement requirements specific to an award.

Condition Found

During our review of the procurement, suspension, and debarment of the sub recipients and contractors, it was noted that there was no process in performing the System for Award Management (SAM) checks.

Effect

The City is not in compliance.

Recommendation

We recommend the City implement procedures to perform System for Award Management (SAM) checks to ensure that sub recipients and contractors are not suspended or debarred from working on federally funded projects.

Management Response

This recommendation has been implemented. To prevent future occurrences, the City has revised its CDBG Request for Proposals (RFP) to include, as part of require supporting documentation, a clearance printout from the System of Award Management (SAM) to be included in submission of proposals for all eligible CDBG projects.

CITY OF PASADENA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2014-001

Significant Deficiency
Reporting

Federal Program

CFDA number: 14.267
Title: Continuum of Care Program
Federal Grantor: U.S. Department of Housing and Urban Development
Grant Number: N/A

Criteria

The March 2014 OMB Circular A-133 *Compliance Supplement* state that Housing and Urban Development (HUD) Annual Progress Report (APR) is due from each grantee 90 days after the end of each operating year. The U.S. HUS Grantee Monitoring Handbook, Chapter 2 also requires the report to be submitted 90 days after the end of the operating year (24CFR 583.400(b)).

Condition Found

During our review of the APR, we noted that the APR's for 3 out of 4 sub-recipients tested were submitted untimely.

Effect

The City is not in compliance.

Recommendation

We recommend the City implement procedures to appoint a responsible individual to oversee the APR's to ensure timely submission.

Management Response

We agree with the recommendation. The Housing Department will implement a tracking mechanism to ensure that draft APRs are submitted by sub-recipients 30 days prior to the due date to HUD so that corrections can be made if needed and the data can be entered into the HUD reporting system prior to the due date, and the Director or a designee will confirm submittal of the APRs to HUD prior to the due date.

Status

No similar instances were noted in fiscal year 2014-15.