

**CITY OF PASADENA, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2016**

CITY OF PASADENA, CALIFORNIA

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TABLE OF CONTENTS

	<u>Page Number</u>
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 <i>Government Auditing Standards</i> .....	1
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 the Uniform Guidance .....	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2016.....	6
Notes to the Schedule of Expenditures of Federal Awards .....	8
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2016.....	9
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2015.....	18



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, 2016, 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 7, 2017.

**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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2016-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2016-002 and 2016-003.



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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City’s Response to Findings**

The City’s response to the findings identified in our audit 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 7, 2017



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 THE UNIFORM GUIDANCE

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



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

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-004 through 2016-010. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004, that we consider to be a material weakness. Additionally, material weaknesses may exist that have not been identified. We also identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-005 through 2016-010, that we consider to be significant deficiencies.

The City's response to the internal control over compliance 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 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 the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 7, 2017, 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California

March 6, 2017 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is February 7, 2017)

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Agriculture</b>				
Passed through the State of California				
Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants and Children *	10.557	05-45781	\$ 1,236,091	\$ -
Passed through the State of California				
Department of Health Service:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20496	483,858	-
<b>Total U.S. Department of Agriculture</b>			<b>1,719,949</b>	<b>-</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct Programs:				
Community Development Block Grants/Entitlement Grants *	14.218	N/A	2,105,401	565,077
Community Development Block Grants - Section 108 Loan Guarantees *	14.248	N/A	21,427	-
Emergency Solutions Grant Program	14.231	N/A	123,675	111,687
Shelter Plus Care	14.238	N/A	68,293	-
Home Investment Partnerships Program	14.239	N/A	881,713	-
Continuum of Care Program *	14.267	N/A	1,837,641	987,226
Section 8 Housing Choice Vouchers	14.871	N/A	12,585,789	-
Passed through the City of Los Angeles:				
Housing Opportunities for Persons with AIDS	14.241	C-126938	84,780	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>17,708,719</b>	<b>1,663,990</b>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	32,078	-
Equitable Sharing Program	16.922	N/A	202,453	-
<b>Total U.S. Department of Justice</b>			<b>234,531</b>	<b>-</b>
<b>U.S. Department of Labor</b>				
Passed through the State of California				
Employment Development Department:				
Employment Service/Wagner-Peyser Funded Activities	17.207	K699958	286,429	-
WIA/WIOA Adult Program	17.258	K594757, K698358	583,981	178,533
	17.258	K594757	222,222	58,084
	17.258	K491014	23,123	15,859
WIA/WIOA Youth Activities	17.259	K594757, K698358	583,108	3,690
WIA/WIOA Dislocated Worker Formula Grants	17.278	K594757, K698358	662,312	242,745
	17.278	K594757, K698358	185,767	-
	17.278	K594757, K698358	22,748	-
	17.278	K594757, K698358	164,769	33,200
Passed through the City of Inglewood:				
WIA/WIOA Dislocated Worker Formula Grants	17.278	13WO60	34,783	-
<b>Total U.S. Department of Labor</b>			<b>2,769,242</b>	<b>532,111</b>
<b>U.S. Department of Transportation</b>				
Passed through the State of California				
Department of Transportation:				
Highway Planning and Construction *	20.205	HP21L-5062(020)	5,186,633	-
	20.205	RPSTPLE-5064(080)	280,916	-
	20.205	BHLS-5064(078)	47,240	-
	20.205	CML-5064(067)	323,833	-
	20.205	HPLU-5064(058)	209,234	-
	20.205	RPSTPLE-5064(081)	192,942	-
	20.205	SRTSL-5064(071)	261,000	-
	20.205	CML-5064(079)	245,554	-
	20.205	HSIPL-5064(075)	33,648	-
	20.205	CML-5064(083)	136,051	-
Recreational Trails Program *	20.219	RT-19-032	45,882	-
Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)				
	20.500	SAFTEA-LU HPLUL-5064(057)	3,882	-
	20.500	CA-04-0094	94,375	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
Job Access and Reverse Commute Program	20.516	145.SCG03174.01	20,305	-
	20.516	CA-37-X100, CA-37-X123-01	34,381	-
	20.516	CA-37-X171	286,173	-
State and Community Highway Safety	20.600	PT1539	108,522	-
	20.600	PT1621	196,958	-
	20.600	PS1513	38,825	-
State Traffic Safety Information System Improvement	20.610	PS1513	89,781	-
<b>Total U.S. Department of Transportation</b>			<b>7,836,135</b>	<b>-</b>

CITY OF PASADENA, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
<b><u>U.S. Department of the Treasury</u></b>				
Direct Programs:				
Equitable Sharing Program	21.000	N/A	35,552	-
<b>Total U.S. Department of the Treasury</b>			<b>35,552</b>	<b>-</b>
<b><u>National Endowment for the Arts</u></b>				
Direct Programs:				
NEA Our Town Project	45.024	N/A	90,759	-
<b>Total National Endowment for the Arts</b>			<b>90,759</b>	<b>-</b>
<b><u>U.S. Department of Health and Human Services</u></b>				
Direct Programs:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) *	93.104	N/A	624,491	-
Racial and Ethnic Approaches to Community Health	93.304	N/A	551,043	-
Special Projects of National Significance *	93.928	N/A	318,240	-
Passed through the County of Los Angeles:				
Public Health Emergency Preparedness	93.069	PH-002221	225,266	-
Temporary Assistance for Needy Families	93.558	IA0614	68,000	-
HIV Emergency Relief Project Grants *	93.914	H209212	830,338	-
Alcohol & Drug Abuse/Mental Health Services Block Grant - AODPS	93.994	H702536	217,715	-
Passed through the State of California				
Department of Health Service:				
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	14-10028	89,957	-
Immunization Cooperative Agreements	93.268	13-20337	69,155	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	31,900	-
Medical Assistance Program	93.778	Pasadena 63	219,047	-
Maternal and Child Health Services Block Grant to the States	93.994	201061	329,183	-
Passed through the City of Inglewood:				
Temporary Assistance for Needy Families	93.558	16WXXX22564	139,258	-
<b>Total U.S. Department of Health and Human Services</b>			<b>3,713,593</b>	<b>-</b>
<b><u>U.S. Department of Homeland Security</u></b>				
Passed through the County of Los Angeles:				
Homeland Security Grant Program	97.067	2014-0019, OES#37-00000	5,294	-
Passed through the City of Los Angeles:				
Homeland Security Grant Program	97.067	2014-0019, OES#37-95050	482,397	-
<b>Total U.S. Department of Homeland Security</b>			<b>487,691</b>	<b>-</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 34,596,171</b>	<b>\$ 2,196,101</b>

\* Major Program

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.

CITY OF PASADENA, CALIFORNIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

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

**Note 2: Section 108 Loan Guarantee Program**

On October 29, 2015, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development in the amount of \$6,000,000 for the Robinson Park Project. Principal is payable in annual installments of \$300,000 commencing on August 1, 2016 and ending August 1, 2035. Interest rate is variable and set on the first day of each month to 20 basis points (0.2%) above the London Interbank Offered Rate (LIBOR). Interest payment is paid quarterly from the effective date of November 12, 2015. The balance outstanding as of June 30, 2016, is \$6,000,000.

**Note 3: Loan Programs with Continuing Compliance Requirements**

The program costs listed below are administered directly by the City of Pasadena, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2016 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<b>Outstanding Balance at June 30, 2016</b>
14.218	CDBG Entitlement	\$ 20,638,664
14.871	Section 8 Low Income Housing - Voucher Program	50,000
14.239	HOME - Investment in Affordable Housing	11,382,928
		<b><u>\$ 32,071,592</u></b>

CITY OF PASADENA, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)?  yes  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.218	Community Development Block Grants/Entitlement Grants Cluster
14.248	Community Development Block Grants – Section 108 Loan Guarantees
14.267	Continuum of Care Program
20.205 / 20.219	Highway Planning and Construction Cluster
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.914	HIV Emergency Relief Project Grants
93.928	Special Projects of National Significance

Dollar threshold used to distinguish between type A and type B program \$1,037,958

Auditee qualified as low-risk auditee?  yes  no

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding 2016-001 – Financial Statement Close Process**

Material Weakness

Condition

As a result of our audit procedures, it was noted that the overall financial statement close process does not enable the City to close the records in a timely fashion. The following items were noted:

- Bank reconciliations not being completed within a timely manner after year-end
- Closing journal entries still being prepared after several months after year-end
- The CAFR not being ready before December 31

Management Response and Corrective Action

The City agrees with this finding. The City has a detailed plan for closing the fiscal year and publishing a timely CAFR. Implementing all of the core financial modules of an ERP system was a monumental task and proved to be more work than anticipated. Key milestones included completion of all bank reconciliations along with detailed analysis and review in order to accurately record all required closing entries. Finance is dependent on all Departments to timely submit all fiscal year invoices for payment and timely billing of receivables. These are two areas that require further improvement for Fiscal Year 2017. There is no shortcutting of these procedures and staff worked diligently to accomplish them.

**Finding 2016-002 – Long-term Debt**

Significant Deficiency

Condition

During the fiscal year, the City executed an advance refunding of debt. Governmental Auditing, Accounting and Financial Reporting requirements state that an advance refunding results in a deferred gain/loss calculated as the difference between the reacquisition price of and the carrying value of the refunded debt at the time of refunding. Upon our initial review of the CAFR it was discovered that this deferred/inflow outflow was not recorded or disclosed. This resulted in a material adjustment to the Government-wide Statement of Net Position.

Management Response and Corrective Action

The City agrees with this finding but had already made the necessary corrections to the financial records prior to this being brought to our attention by the Auditors.

**Finding 2016-003 – Grants Reconciliation**

Significant Deficiency

Condition

During our audit procedures of the federal grants, we noted that some grant activity was not documented on the schedule of federal awards and had not been reconciled to the general ledger at the end of the fiscal year resulting in adjustments to the schedule. This resulted in federal expenditures being reported in the incorrect accounting period. We recommend that grant activities be reconciled to the general ledger to avoid misreporting grant activity on the schedule of federal awards.

Management Response and Corrective Action

The City agrees with this finding and will work with Departments on timelier reporting of grant allocations and billings related to primarily grant funded Projects. The City does currently reconcile to the General Ledger.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2016-004 – Reporting**

Noncompliance/Material Weakness

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-15-MC-06-0525

Federal Award Year: 2015

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

Criteria or Specific Requirement

The grant award agreement stipulates that the grantee shall comply with the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. The City is required under FFATA to report subawards greater than or equal to \$25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made, and annually thereafter.

Condition

As part of our audit testing, we requested that the City provide us with the FFATA reports filed for each subrecipient with a subaward greater than \$25,000. The City was not able to provide us with the reports and it became apparent that the reports were not prepared or filed.

Cause of the Condition

The City was not aware that the FFATA reporting requirements were applicable, resulting from inadequate internal controls relating to identification of reporting requirement for the grant program.

Effect or Possible Effect

The City did not comply with the reporting requirements of FFATA or the grant agreement.

Questioned Costs

No questioned costs were identified (\$0).

Context

We requested a total of eight (8) subrecipient FFATA reports, of which none were able to be provided.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City implement procedures and controls to identify required reports and reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management Response and Corrective Action

This recommendation has been implemented. The City (Housing Department) has developed an internal department checklist, which will include attached copies of the required Federal Funding Accountability and Transparency Act (FFATA) report. The checklist, along with supporting documents, will be reviewed and approved by the Housing and Career Services Director prior to executing all federal grant award agreements.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Finding 2016-005 – Procurement, Suspension, and Debarment**  
Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-15-MC-06-0525

Federal Award Year: 2015

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

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition

The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the subrecipient files for the City's eight (8) largest subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and will affect future years' subrecipient RFPs.

Repeat Finding

This is a repeat finding. Refer to Finding 2015-032 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action

This recommendation has been implemented. The City revised its CDBG Request for Proposals (RFP) to include, as part of required supporting documentation, a clearance printout from the System of Award Management (SAM) to be included in submission of proposals for all eligible CDBG projects. Implementation of the revised RFP began with the 2016-2017 program year commencing July 1, 2016.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Finding 2016-006 – Reporting**

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-15-MC-06-0525

Federal Award Year: 2015

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

Criteria or Specific Requirement

Part 4 of the Compliance Supplement requires that prime recipients of Community Development Block Grants (CDBG) funding submit the Integrated Disbursement and Information System (IDIS) *C04PR03 Activity Summary Report* and the *C04PR26 CDBG Financial Summary Report* within ninety (90) days after the end of the recipient's grant program year. The Department of Housing and Urban Development (HUD) also requires that the *HUD 60002 Section 3 Summary Report* be submitted to HUD at the same time as the CDBG recipient's *Consolidated Annual Performance and Evaluation Report (CAPER)*, which is also due within ninety (90) days after the end of the program year.

Condition

During our audit testing, we inspected the *C04PR03 Activity Summary Report* and the *C04PR26 CDBG Financial Summary Report* and observed that the reports were dated January 31, 2017 and October 5, 2016, respectively. We also inspected the *HUD 60002 Section 3 Summary Report* and observed that it was dated January 10, 2017. The deadline for submitting each of these three reports was September 28, 2016, which is ninety (90) days after program year end of June 30, 2016.

Cause of the Condition

This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect

The City is not in compliance with the reporting requirements of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs

No questioned costs were identified (\$0).

Context

Only one of each of these reports are filed each program year. As such, any late filings would be considered to be noncompliance with the reporting requirements. The City was not late in the prior fiscal year, and we believe this finding is an isolated instance and not a consistent or pervasive problem.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City implement procedures and controls to identify reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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Management Response and Corrective Action

This recommendation has been implemented. The City's CDBG program has a deadline to perform financial close outs by August 15<sup>th</sup>. The City's Finance Department will finalize the *PR26 CDBG Financial Summary Report* by the first week of September, to be included in the *Consolidated Annual Performance and Evaluation Report* (CAPER) submission by the September 28<sup>th</sup> deadline. In addition, the *PR03 Activity Summary Report* will be included as an attachment to the CAPER, along with the *HUD 60002 Section 3 Summary Report*.

**Finding 2016-007 – Reporting**

Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-15-MC-06-0525

Federal Award Year: 2015

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

Criteria or Specific Requirement

The U.S. Department of Housing and Urban Development (HUD) allows for grantees to report their financial status on the *Standard Form 425 Federal Financial Report* (SF-425) using either the cash basis or the accrual basis of accounting. The requirement is that the reporting must be consistent.

Condition

During our audit testing of the *SF-425 Federal Financial Reports*, we observed that the reports indicated that they are prepared using the accrual basis of accounting. However, we noted that the reports are actually prepared on the cash basis of accounting.

Cause of the Condition

The condition as caused by inadequate internal controls relating to the preparation and review of the *SF-425 Federal Financial Reports*.

Effect or Possible Effect

The City's *SF-425 Federal Financial Reports* do not accurately represent the financial position of the program, as they incorrectly purport to include accruals for program expenditures.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the four (4) *SF-425 Federal Financial Reports* prepared for the program year and noted that each one is marked "accrual." We recalculated each report and noted that they were prepared on the cash basis of accounting.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City implement procedures and controls to review the reports that are prepared and to verify that all information contained within the reports is accurate.

Management Response and Corrective Action

The City agrees with this finding and will mark "cash basis" on the SF-425 Federal Financial Reports moving forward. The City chose "accrual basis" as it is the general accounting basis.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Finding 2016-008 – Special Tests and Provisions**

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-15-MC-06-0525

Federal Award Year: 2015

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

Criteria or Specific Requirement

The U.S. Department of Housing and Urban Development (HUD) requires that grantees submit a *Consolidated Annual Performance and Evaluation Report* (CAPER) to report on the grantee's program accomplishments for each program year. The CAPER is to be submitted to HUD within ninety (90) days after the close of the grantee's program year.

Condition

As part of our audit procedures, we inspected the CAPER prepared by the City for the program year ended June 30, 2016. We observed that the CAPER was completed and submitted to HUD on October 11, 2016; the deadline to submit the CAPER to HUD was September 28, 2016, which is ninety (90) days after the program year-end.

Cause of the Condition

This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect

The City is not in compliance with the reporting aspect of the Citizen Participation special provisions of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs

No questioned costs were identified (\$0).

Context

Only one CAPER is filed each program year. As such, any late filing would be considered to be noncompliance with the program requirements.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City implement procedures and controls to identify reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management Response and Corrective Action

The City (Housing and Career Services Department) will publish the required 15-day notice of a CAPER public hearing by September 1<sup>st</sup> to allow for public comment. The City will finalize and approve the CAPER prior to September 28<sup>th</sup> in order to meet the HUD submission deadline.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Finding 2016-009 – Procurement, Suspension, and Debarment**  
Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.267

Program Title: Continuum of Care Program

Federal Award Numbers: CA0659L9D071407, CA1360L9D071400, CA0933L9D071405, CA1054L9D071404,  
CA0653L9D071401, CA0662L9D071205, and CA1363L9D071400

Federal Award Year: 2014

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

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition

The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the subrecipient files for the City's eight (8) subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action

SAM clearance was pulled for the subrecipients following last year's finding, which was after fiscal year 2016 Continuum of Care (CoC) contracting. As stated by the auditor, this issue will be resolved for future audits as a result of the steps put in place following last year's Single Audit.

**CITY OF PASADENA, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**Finding 2016-010 – Procurement, Suspension, and Debarment**  
Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Planning and Construction

Federal Award Numbers: HP21L-5062(020)

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition

The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action

The City agrees with this finding. The City started implementing the new RFP policy which required SAM clearance for subrecipients and contractors in the middle of fiscal year 2016. The City will enforce the RFP policy moving forward.

**CITY OF PASADENA, CALIFORNIA**

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

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**SECTION I - 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 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 assets 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-002 – Accounting and Financial Reporting for Capital Assets (Continued)**

Material Weakness

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 assets 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. 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 assets 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 assets 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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.

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 was not changed by this correction. This City has added an item to its year-end checklist to review the recording and classification of land held for resale.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 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 governmental 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. This City has added an item to its year-end checklist to review the recording and classification of land held for resale.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-005 – Land Held for Resale and Major Fund Determination (Continued)**

Material Weakness

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

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 into 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 a fixed asset module.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 not being expensed as opposed to capitalized and vice versa.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-007 – Accounting for Construction-in-Progress (Continued)**

Material Weakness

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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 opportunities 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.

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 excel spreadsheets to the Tyler Munis system.

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-009 – Parking Cash Account (Continued)**

Material Weakness

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 general ledger 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 both the City and the 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.

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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 resulted in a restatement of opening governmental fund balance.

Recommendation

We recommend the City 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 \$325,000. 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 reclassify this amount as an expenditure, and to develop procedure 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 ensure all interest is capitalized in accordance with GASB Statement No. 62.

Management Response and Corrective Action

The City agrees with this recommendation and has made the necessary corrections to the financial records.

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 develop procedures to ensure that vendor information is properly updated in the vendor master file. In addition, we recommend the City develop procedure to verify the receipt of goods or services prior to payment for 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 we 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 not applicable purchase order in the system. In order to process payment, a purchase order had to be created after the service 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-017 – Recording of Expenditures/Expenses**

Material Weakness

Condition and Criteria

There were a number of transactions that related to 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 generally 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 fiscal year 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.

Status of Prior Audit Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 were 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.

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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 orders or contracts stipulating what was being purchased, for what quantity, and for what amount.

Recommendation

We recommend that the City cease all use of the “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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 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 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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.

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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 within 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.

Status of Prior Period Finding

This finding is not considered resolved and is repeated in fiscal year 2015-2016 as Finding 2016-001.

**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 check list 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**CITY OF PASADENA, CALIFORNIA**

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

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**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 general ledger 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 are properly reconciled to the general ledger 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**Finding 2015-028 – Vendor Master File Edit List**

Significant Deficiency

Condition and Criteria

As a result of our audit procedures, it was noted that no independent review of the vendor master file 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, including any changes made to that listing, as well as review annual purchase amounts to vendors to ensure vendors are being paid proper amounts, and not 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.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 timecards 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.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-029 – Timecard Approval (continued)**

Significant Deficiency

Management Response and Corrective Action

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

Status of Prior Period Finding

This finding is considered to be resolved.

**Finding 2015-030 – Acting 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 in this effort.

Status of Prior Period Finding

This finding is considered to be resolved.

**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 of 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.

**CITY OF PASADENA, CALIFORNIA**

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

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**Finding 2015-031 – Compliance and Other Matters (Continued)**

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 the reports to the City Attorney, Assistant City Manager, Director of Finance, and Human Resources Director. Upon hiring and Internal Audit Manager, all fraud hotline activities were promptly transferred to the Internal Audit Manager.

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 online training. The Senior Management Group received comprehensive training, materials were provided to each Department to discuss in their staff meetings. Included in the City's fiscal year 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, year-end 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.

Status of Prior Period Finding

Fraud Hotline

This finding is considered to be resolved.

Employee Training

This finding is considered to be resolved.

Debt Covenant Requirements

This finding is considered to be resolved.

CITY OF PASADENA, CALIFORNIA

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

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SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2015-032 – Procurement, Suspension, and Debarment**

Noncompliance

Federal Program

CFDA Number: 14.218

Title: Community Development Block Grants/Entitlement Grants

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

During our audit of the procurement, suspension, and debarment of the subrecipients and contractors, we noted that there was not 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 subrecipients and contractors are not suspended or debarred from working on federally-funded projects.

Management Response and Corrective Action

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

Status of Prior Period Finding

This finding is not considered resolved and is repeated in fiscal year 2015-2016 as Finding 2016-005.