

# Agenda Report

January 11, 2010

**TO:** Honorable Mayor and City Council/Pasadena Community Development Commission

**THROUGH:** Audit Committee

**FROM:** Director of Finance

**SUBJECT: JOINT ACTION: FISCAL YEAR JUNE 30, 2009 ANNUAL FINANCIAL REPORTS**

## **RECOMMENDATION:**

It is recommended that the following audit reports for the year ending June 30, 2009 be received by the City Council and/or Pasadena Community Development Commission (PCDC):

- A. Comprehensive Annual Financial Report
- B. Single Audit Report on Federal Awards
- C. Pasadena Community Development Commission Annual Financial Report
- D. Management Letter – City of Pasadena
- E. Pasadena Center Operating Company Basic Financial Statements
- F. Rose Bowl Operating Company Basic Financial Statements
- G. Pasadena Fire and Police Retirement System Report and Audited Financial Statements and Required Supplemental Information
- H. Air Quality Improvement Fund Financial and Compliance Report
- I. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- J. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
- K. The Auditors Communications with those charged with Governance

## **EXECUTIVE SUMMARY:**

This action is to receive and file the City's five annual financial statements and six compliance related reports for the fiscal year ended June 30, 2009. All financial statements received an unqualified (or clean) opinion. No material weaknesses in internal controls were noted; however, three lesser findings were reported. A brief presentation will be made by the City's external auditors, Mayer Hoffman McCann P.C.

## **BACKGROUND:**

All of the five attached financial statements received unqualified opinions from our outside auditors. This is the highest or cleanest attestation report given by independent auditors and includes the phrase "the financial statements referred to above present fairly, in all material respects the financial position..." Six reports deal with compliance information, specific audit test work, and provide comment on errors, lack of errors, or suggestions for future improvements. The auditors did not identify any deficiencies in internal control that are considered a material weakness; however, they did identify one item that is considered a significant deficiency, reported a prior year item that has not been fully resolved, and reported that the draft CAFR was not timely and contained items requiring further work. All three findings are discussed later in this report. Management takes all findings very seriously and continually seeks to improve our operations.

## **COUNCIL POLICY CONSIDERATION:**

Review and consideration of the information presented in the accompanying financial reports promotes the City Council's goal to maintain fiscal responsibility and stability.

## **Comprehensive Annual Financial Report**

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted annually and a report issued thereon. In the attached audited Comprehensive Annual Financial Report for the year ending June 30, 2009, the City received an unqualified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles.

## **Single Audit Reports**

The Single Audit Act of 1984 and Single Audit Act Amendments of 1996 establish uniform audit requirements for local governments expending federal awards greater than \$300,000 a year. The audit is on an "entity-wide" basis and imposes additional requirements in relation to testing of, and reporting on, internal control and compliance with laws and regulations. Attached, please find the Single Audit Reports for the year

ended June 30, 2009. Information on the findings reported in the "Management Letter" is summarized in this report.

### **Pasadena Community Development Commission Financial Statements**

In accordance with the California Health and Safety Code Section 33080.1, a redevelopment agency shall present to its legislative body an annual independent financial audit report for the previous fiscal year. The report should present the results of the operations and financial position of the agency, including all financial activities with moneys required to be held in a separate Low and Moderate Income Housing Fund pursuant to Section 33334.3. Attached, please find the Pasadena Community Development Commission Annual Financial Report for the year ended June 30, 2009.

The bound report also includes the Report of Independent Auditors On State Compliance and the Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed in Accordance With Government Auditing Standards.

### **Management Letter**

The management letter provides a general overview of the financial report and identifies certain matters involving the internal control structure and other operational matters including comments and recommendations for improvement. These comments and recommendations have been reviewed with the appropriate members of City staff and responses provided. This report includes one finding that is considered a significant deficiency in that the inventory test work of the auditors detected one electrical switch that could not be located, but whose value remains in inventory. Staff believes that this piece of equipment was deployed after hours during an emergency call out and has taken steps to improve tracking of items removed from inventory after normal business hours.

Additionally, five items reported over the prior three annual audits received a status update; where the auditors review prior findings, the corrective actions put in place, and provide a current status. Four of the five showed all corrective actions as being successful. A fifth item related to review and reconciliation of monthly Paseo Colorado parking garages showed that timely monthly reconciliations have not consistently taken place. The Transportation Department has had vacancies in an Analyst and Parking Manager positions and has since filled one of the positions and is working to bring these reviews up to date.

### **Component Unit Financial Statements**

Financial statements for Pasadena Center Operating Company, Rose Bowl Operating Company and Pasadena Fire and Police Retirement System are included as they are component units of the City. Component units are legally separate entities, in substance, but are part of the government's operations. Each of the City's component units received an unqualified opinion.

### **Air Quality Improvement Fund Financial and Compliance Report**

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of those collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets**

Section 1.5 of Article XIII B of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors provide this report, which confirms the City's compliance. No exceptions were noted.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program**

At the request of the City, the auditors performed certain procedures as enumerated in the report to verify the accuracy and timely posting of contributions to the deferred compensation program provided by Hartford. No exceptions were noted.

### **The Auditor's Communications with Those Charged with Governance**

One new auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires more and documented communications between the auditors and the City Audit Committee/Finance Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit, and to further define their role. They noted that there were no material weaknesses in internal controls and no disagreements with management; however, they did report that the initial draft of the City-wide CAFR was not received as early as planned and contained some omissions.

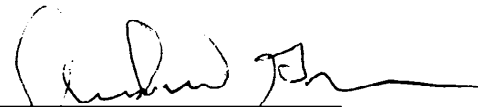
To address this, staff will take a number of steps including:

- Work with external auditors to improve the process.
- Stricter adherence to planning calendar.
- Institute more formal deadlines and milestones.
- Keep monthly closings of books on schedule.
- Enhanced use of formal checklists.
- Shorten the length of the CAFR and increase readability by improving and shortening the footnotes.
- Exploit opportunities to parallel some processes, rather than wait for intermediate completions before starting the next step.
- Utilization of more existing staff for completion, review, and assembling of CAFR.
- Provide additional training to staff on CAFR requirements and process.

**FISCAL IMPACT:**

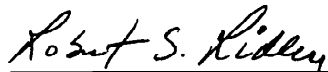
This report is for information only.

Respectfully submitted,



ANDREW GREEN  
Director of Finance

Prepared by:



Robert S. Ridley  
Controller

Approved by:



MICHAEL J. BECK  
City Manager