

CITY OF PASADENA

Single Audit Report on  
Federal Awards

Year ended June 30, 2007

**Conrad Government Services Division**

12/17/2007  
Item 5.B.1 & 8.B.  
Attachment B

**MHM**

Mayer  
Hoffman  
McCann P.C.  
An Independent CPA Firm

CITY OF PASADENA  
Single Audit Report on Federal Awards  
Year ended June 30, 2007

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Honorable Mayor and City Council  
City of Pasadena, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the City of Pasadena, California (City) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. Matters conforming to this definition are described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2 and 07-3.

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

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

Honorable Mayor and City Council  
City of Pasadena, California  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Pasadena's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Pasadena's responses and, accordingly, we express no opinion on them.

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

*Mayor Hoffman McClann P.C.*

Irvine, California  
November 26, 2007



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Honorable Mayor and City Council  
 City of Pasadena, California

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

Compliance

We have audited the compliance of City of Pasadena with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Pasadena’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Pasadena’s management. Our responsibility is to express an opinion on the City of Pasadena’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pasadena’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Pasadena’s compliance with those requirements.

In our opinion, the City of Pasadena complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Schedule of Expenditures and Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena as of and for the year ended June 30, 2007, and have issued our report thereon dated November 26, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Pasadena's basic financial statements. The accompanying schedule of expenditures of federal awards and the supplementary information included in Schedule A-1 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Mayor Hoffman Melan P.C.*

CITY OF PASADENA  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2007

	Federal Domestic Assistance <u>Number</u>	Program Identification <u>Number</u>	Program <u>Expenditures</u>	Amount Provided to Subrecipients
<u>Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant Entitlement	14.218	n/a	\$ 2,377,382	1,003,414
Section 108 Loan - Fair Grove Shopping Center	14.248	n/a	318,763	-
Total CDBG Entitlement and Small Cities Grants			2,696,145	1,003,414
Section 8 Rental Voucher Program	14.871	CA079VO	10,895,333	-
Emergency Shelter Grant Program	14.231	n/a	92,046	92,046
Supportive Housing	14.235	n/a	1,011,636	1,011,636
Shelter Plus Care	14.238	n/a	92,494	-
Home-Investment in Affordable Housing	14.239	n/a	1,028,215	795,616
Total direct assistance			15,815,869	2,902,712
Passed through Pacific Clinics:				
Supportive Housing	14.235	10220000-305	43,326	-
Passed through the City of Los Angeles:				
Home Opportunities for Persons with AIDS	14.241	C98522	32,984	-
Total Department of Housing and Urban Development			15,892,179	2,902,712
<u>Department of Labor</u>				
Passed through the State of California:				
Workforce Investment Act - Adult	17.258	Various	548,656	70,680
Workforce Investment Act - Youth	17.259	Various	692,297	176,361
Workforce Investment Act - Dislocated Workers	17.260	Various	507,262	62,575
Workforce Investment Act - Rapid Response	17.260	Various	611,027	-
Workforce Investment Act - Foster Youth	17.267	Various	364,400	262,112
Workforce Investment Act - Incentive Grants	17.267	Various	200,537	-
Passed through the County of Los Angeles:				
Workforce Investment Act - Adult	17.258	Various	78,199	16,000
Workforce Investment Act - Youth	17.259	Various	69,414	25,126
Workforce Investment Act - Dislocated Workers	17.260	Various	90,682	11,801
Total Department of Labor			3,162,474	624,655

\* Major program

n/a = not available

(Continued)

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

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

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
<u>Department of Health and Human Services</u>				
Passed through the State of California				
Department of Health Services:				
Maternal and Child Health Services Block Grant	93.994	200661	267,863	-
Centers for Disease Control and Prevention - TB Control	93.283	TB CSGF 90-76	40,559	-
Child Health Development Program - Foster Care	93.658	n/a	47,224	-
Child Lead Poison Prevention	93.197	95-6000759	31,121	-
Early Periodic Screening Diagnosis and Treatment - Administrative	93.778	n/a	148,860	-
Medi-Cal Administrative Claiming	93.778	04-35118	484,229	-
Immunization Subvention Funds	93.268	98-15761,99-86354	57,697	-
Healthy Community Access Program - HCAP	93.252	G92CS06491A0	561,814	-
AIDS Drug Assistance Program - ADAP	93.917	n/a	8,110	-
Children's Outreach, Enrollment, Retention and Utilization	93.778	PH 000011	19,402	-
Passed through the County of Los Angeles:				
Alcohol and Drug Abuse/Mental Health Services Block Grant	93.992	Various	234,224	-
AIDS HIV Early Intervention	93.915	H209212	798,285	-
Total Department of Health and Human Services			2,699,388	-
<u>Department of Justice</u>				
Direct Assistance:				
Asset Forfeiture	16.000	CA 1953	52,879	-
Local Law Enforcement Block Grants Program	16.592	2006-DJ-BX-0215	44,877	-
Community Oriented Policing Services Grant	16.710	Various	283,288	-
Passed through the State of California Department of Criminal Justice and Planning:				
Elder Abuse and Advocacy and Outreach Program - VOCA Grant	16.575	EA 04077625	90,000	-
Total Department of Justice			471,044	-
<u>Department of Treasury</u>				
Direct Assistance:				
Asset Forfeiture	21.000	CA 1953	4,181	-
Total Department of Treasury			4,181	-

\* Major program  
n/a = not available

(Continued)

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



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

	Federal Domestic Assistance <u>Number</u>	Program Identification <u>Number</u>	Program <u>Expenditures</u>	Amount Provided to Subrecipients
<u>Department of Agriculture</u>				
Passed through the State of California Department of Health Services:				
Supplemental Food Program for Women, Infants and Children (WIC)	10.557	05-45781	698,419	-
Total Department of Agriculture			<u>698,419</u>	<u>-</u>
<u>Department of Transportation</u>				
Passed through the California Department of Transportation:				
Highway Planning and Construction	20.205	Various	9,278,110 *	-
Capital Assistance Program	20.513	SAG455127-10	32,701	-
State and Community Highway Safety	20.600	Various	330,244	-
Total Department of Transportation			<u>9,641,055</u>	<u>-</u>
<u>Department of Homeland Security</u>				
Passed through the County of Los Angeles:				
State Homeland Security Grant Program	97.005	Various	1,450,377 *	-
Urban Areas Security Initiative	97.008	Various	682,381	-
Pre-Disaster Mitigation Grant	97.017	2007-11,OES#037-56000	750,000	-
Public Assistance Grants	97.036	037-56000	114,571	-
Buffer Zone Protection Plan	97.078	2005-GR-T5-0068	45,000	-
Total Department of Homeland Security			<u>3,042,329</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 35,611,069</u>	<u>3,527,367</u>

\* Major program  
n/a = not available

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

CITY OF PASADENA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

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

(a) Scope of Presentation

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

(b) Basis of Accounting

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

(c) Subrecipients

During the fiscal year ended June 30, 2007, the City disbursed \$3,527,367 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

(d) Loans Outstanding

Outstanding loans under the U.S. Department of Housing and Urban Development – Section 108 program were \$4,367,188 at June 30, 2007. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards. Outstanding loans under the U.S. Department of Housing and Urban Development – Community Development Block Grant program were \$272,844 at June 30, 2007. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards.

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

Total grant expenditures for the Elder Abuse and Advocacy and Outreach Program of \$90,000 are comprised of \$7,897 for personnel services, \$82,103 for operating expenditures and \$0 for equipment. The match on the Victims of Crime Act (VOCA) grant was \$22,500 in operating expenditures.

CITY OF PASADENA  
Financial Data Schedule  
June 30, 2007

Line Item #	Account Description	Section 8 Rental Voucher Program
	<u>Assets</u>	
	Current assets:	
111	Cash - unrestricted	\$ 1,376,682
100	Total cash	<u>1,376,682</u>
128	Fraud recovery	<u>13,341</u>
120	Total receivables, net of allowances for doubtful accounts	<u>13,341</u>
131	Investments - unrestricted	<u>35,413</u>
150	Total current assets	<u>1,425,436</u>
190	Total assets	<u><u>\$ 1,425,436</u></u>
	<u>Liabilities and Fund Balance</u>	
	Current liabilities:	
312	Accounts payable, less than 90 days	\$ 13,413
321	Accrued wage/payroll tax payable	<u>42,384</u>
310	Total current liabilities	<u>55,797</u>
	Non-current liabilities:	
353	Noncurrent liabilities - other	<u>55,624</u>
350	Total non-current liabilities	<u>55,624</u>
300	Total liabilities	<u>111,421</u>
	Fund balance:	
512	Undesignated fund balance	<u>1,314,015</u>
513	Total fund balance	<u>1,314,015</u>
600	Total liabilities and fund balance	<u><u>\$ 1,425,436</u></u>

CITY OF PASADENA  
Financial Data Schedule  
Year ended June 30, 2007

Line Item #	Account Description	Section 8 Rental Voucher Program
	Revenues:	
706	HUD PHA grants	\$ 10,895,333
708	Other government grants	40,602
711	Investment income - unrestricted	72,055
714	Fraud recovery	36,362
715	Other revenue	44,393
700	Total revenues	<u>11,088,745</u>
	Operating Expenditures:	
912	Auditing fees	6,024
916	Other operating - administrative	1,348,906
969	Total operating expenditures	<u>1,354,930</u>
970	Excess operating revenues over operating expenditures	<u>9,733,815</u>
	Expenditures:	
973	Housing assistance payments	<u>9,657,363</u>
900	Total expenditures	<u>11,012,293</u>
1000	Excess (deficiency) of operating revenues over (under) expenditures	<u>\$ 76,452</u>
1103	Beginning equity	\$ 1,137,046
1104	Prior period adjustments, equity transfers and correction of errors	100,517
1120	Unit months available	15,393
1121	Number of unit months leased	15,393
1118	Housing assistance payments equity	\$ 1,314,015

CITY OF PASADENA  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2007

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting. There were three significant deficiencies in internal control over financial reporting that we described as items 07-1, 07-2 and 07-3.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were as follows:
  - Department of Transportation – Highway Planning and Construction – CFDA #20.205
  - Department of Homeland Security – State Homeland Security Grant Program – CFDA #97.005
8. The dollar threshold used to distinguish Type A and Type B programs was \$1,068,332.
9. The auditee was considered a low risk auditee for the year ended June 30, 2007 for the purposes of determining major programs.

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

(07-1) Internal Controls over Purchase Cards

We reviewed the City's corporate purchasing card activity for a thirty day period ending March 15, 2007. We obtained credit card statements and supporting documentation for the ten cards with the highest dollar value of transactions.

CITY OF PASADENA

Schedule of Findings and Questioned Costs

(Continued)

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

(07-1) Internal Controls over Purchase Cards, (Continued)

During our review, we noted the following:

- a. Five cardholder statements had not been reviewed by an individual other than the cardholder.

Recommendation

We recommend that each cardholder statement be reviewed by another individual in that department who can verify whether the goods or services were actually received and whether those expenses related to the City department's business purpose.

Management's Comments Regarding Corrective Action Planned

The City's policy regarding use of Purchase Cards does not require separate review of cardholder statements. Rather monthly management reports on card usage have been available to all departments. In consultation with our outside auditors, the addition of a documented review of the management reports by a responsible and knowledgeable reviewer in each Department would address this item and item (07-1) c. Additionally, staff of the Purchasing Division performs random, periodic review of card usage.

- b. In our sample, one receipt was missing and a Purchasing Card Lost Receipt Form was not filled out by the cardholder until an inquiry was made. In addition, one cardholder statement had not been turned in to the Department of Finance.

Recommendation

The City's Purchasing Policy states that "statement reconciliation is mandatory...upon reconciliation, all statements must be received in the Department of Finance, Budget and Purchasing Division no later than the 1<sup>st</sup> working day of the month following the billing cycle." We recommend that management enforce adherence to the City's Purchasing Policy.

Management's Comments Regarding Corrective Action Planned

Compliance monitoring is ongoing. Cardholders who do not comply with the program requirements have their cards suspended and if necessary revoked. In order to better facilitate compliance with program requirements the Finance Department has begun the rollout of an upgraded purchasing card tracking

CITY OF PASADENA

Schedule of Findings and Questioned Costs

(Continued)

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

(07-1) Internal Controls over Purchase Cards, (Continued)

system. This application allows cardholders to reconcile their monthly statements online, and allows for the suspension of cardholder purchasing privileges when statements have not been timely or properly reconciled.

- c. For four transactions, the relationship of the transaction to the business purpose of the department was not self-evident based upon the name of the vendor or the description on the receipt provided for that transaction.

Recommendation

The department's review of purchasing card transactions should include obtaining an understanding of the business purpose of transactions for which their relationship to department objectives is not clear. In some cases, this might involve contact by the departmental reviewer with the cardholder and documenting additional information for the transaction.

Management's Comments Regarding Corrective Action Planned

Management concurs with this recommendation. The corrective action planned in response to item (07-01 a.) Internal Controls over Purchase Cards is expected to address this recommendation.

(07-2) Excess Collection Refunds

Excess collection refunds resulting from various types of overpayments are processed by Municipal Services. A report is created in excel by an individual in Municipal Services and is then sent via email to the Department of Information Technology (IT). IT formats the report and sends it to Accounts Payable for processing. We recommend the controls below to reduce the risk that IT might add an unauthorized refund to the report since the final amount disbursed is not compared to what was initially approved by Municipal Services.

Recommendation

We recommend that the report that is created, reviewed, and approved in Municipal Services be signed and forwarded to Accounts Payable. Accounts Payable should ensure that the final amount disbursed agrees to what was initially approved by Municipal Services.

CITY OF PASADENA

Schedule of Findings and Questioned Costs

(Continued)

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

(07-2) Excess Collection Refunds, (Continued)

Management's Comments Regarding Corrective Action Planned

Accounts Payable already uses this technique for other payment processes similar to this and will implement this recommendation for the Excess Collection Refunds.

(07-3) Changes to Vendor Information

The Accounts Payable Supervisor has system access rights to add vendors, make changes to vendor information, and process invoices for payment within Peoplesoft (the accounting software). This combination of computer system access rights theoretically could allow the Accounts Payable Supervisor to input a fictitious vendor, create an invoice, and process a disbursement without detection by management.

Recommendation

We recommend that the Accounts Payable Supervisor be denied computer access rights to add vendors and to make other changes to vendor master file information.

Management's Comments Regarding Corrective Action Planned

Management agrees with this recommendation and will restrict the system access rights accordingly.

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

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



CITY OF PASADENA  
Summary Schedule of Prior Audit Findings  
Year ended June 30, 2007

There were no prior year audit findings.