



CITY OF PASADENA
Pasadena, California

Single Audit Report on Federal Awards

Year ended June 30, 2010



Meyer
Hoffman
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An Independent CPA Firm

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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, 2010, and have issued our report thereon dated December 6, 2010. 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 controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01 and 2009-01 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

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

We also noted other matters involving internal control over financial reporting that we have reported to the City Council of the City of Pasadena in a separate letter dated December 6, 2010.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 6, 2010



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

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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. 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.

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, 2010.

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. Accordingly, we do not express an opinion on the effectiveness of the City of Pasadena's internal control over compliance.

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

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

Schedule of Expenditures and Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena as of and for the year ended June 30, 2010, and have issued our report thereon dated December 6, 2010. 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 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 basic 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.

Neyer Hoffman McCann P.C.

Irvine, California
December 6, 2010

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

	Federal Domestic Assistance <u>Number</u>	Program Identification <u>Number</u>	Program <u>Expenditures</u>	Amount Provided to <u>Subrecipients</u>
<u>Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant Entitlement	14.218	n/a	\$ 2,149,488 *	763,675
Community Development Block Grant Entitlement (Recovery Act)	14.253	n/a	90,686 *	-
Section 108 Loan - Fair Grove Shopping Center	14.248	n/a	<u>344,093</u>	<u>65,348.00</u>
Total CDBG Entitlement and Small Cities Grants			2,584,267	829,023
Section 8 Rental Voucher Program	14.871	CA079VO	11,413,200	-
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	n/a	220,578 *	-
Emergency Shelter Grant Program	14.231	n/a	97,383	97,383
Supportive Housing	14.235	n/a	1,141,687	-
Shelter Plus Care	14.238	n/a	643,776	-
Home-Investment in Affordable Housing	14.239	n/a	<u>1,961,824</u>	<u>-</u>
Total direct assistance			18,062,715	926,406
Passed through the City of Los Angeles:				
Home Opportunities for Persons with AIDS	14.241	C98522	<u>52,737</u>	<u>-</u>
Total Department of Housing and Urban Development			<u>18,115,452</u>	<u>926,406</u>
<u>Department of Labor</u>				
Passed through the State of California Employment Development Department:				
Workforce Investment Act - Adult	17.258	R970533, K04137	463,969 *	75,440
Workforce Investment Act - Youth	17.259	R970533, K04137	554,073 *	169,706
Workforce Investment Act - Dislocated Worker	17.260	R970533, K04137	700,950 *	197,871
Workforce Investment Act - Rapid Response	17.260	K04137	280,814 *	-
Workforce Investment Act - Foster Youth	17.207	K04137	146,709	-
Workforce Investment Act- IndyMac Bank	17.260	R970533	275,182 *	91,265
Workforce Investment Act- CalGRIP	17.261	R970533	406,882	-
Workforce Investment Act- Economic Stimulus 2	17.260	R970533	45,102 *	22,738
Workforce Investment Act- Economic Stimulus 3	17.260	R970533	120,586 *	58,423
Workforce Investment Act- RR with Participants	17.260	K04137	8,683 *	-
Workforce Investment Act- New Start 15% DW Aug	17.258	R970533	27,934 *	20,438
Workforce Investment Act- ARRA Adult	17.258	R970533	245,856 *	88,504
Workforce Investment Act- ARRA Dislocated Worker	17.260	R970533	528,058 *	195,619
Workforce Investment Act- ARRA Youth	17.259	R970533	592,161 *	-
Workforce Investment Act- ARRA Rapid Response	17.260	R970533	118,295 *	-
Workforce Investment Act- ARRA Auto Tech	17.258	K04137	<u>49,102 *</u>	<u>-</u>
Total Department of Labor			<u>4,564,356</u>	<u>920,004</u>

* 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 <u>Subrecipients</u>
<u>Department of Health and Human Services</u>				
Passed through the State of California:				
Department of Health Services:				
Immunization Subvention Funds	93.268	09-11288	14,740	-
Immunization Subvention Funds - ARRA	93.712	09-11288	41,258	-
Immunization Collaborative Funds	93.268	09-11288	19,934	-
Immunization Collaborative Funds - ARRA	93.712	09-11288	60,786	-
Medi-Cal Administrative Claiming	93.778	98-16250	234,226	-
Child Lead Poison Prevention	93.197	95-6000759	90,380	-
Centers for Disease Control and Prevention - TB Control	93.283	TBCSGF9076	49,477	-
MCH County and Comprehensive Prenatal Outreach	93.994	200961	110,801	-
MCH Block Infant	93.994	200961	285,811	-
Targeted Case Management	93.778	n/a	50,360	-
Child Health Development - Foster Care Program	98.658	n/a	73,544	-
Child Health and Disability Prvention Program - Gateway	93.778	n/a	198,508	-
Passed through the County of Los Angeles:				
Alcohol and Drug Abuse/Mental Health - CPRP	93.992	H210267	202,333	-
Alcohol and Drug Abuse/Mental Health - General Relief	93.992	H210437	20,231	-
Alcohol and Drug Abuse/Mental Health - CALWORKS	93.992	H209122A	13,351	-
AIDS HIV Early Intervention	93.915	H209212	959,537	-
Bio-Terrorism	93.069	H-701584	505,219	-
Total Department of Health and Human Services			2,930,496	-
<u>Department of Justice</u>				
Direct Assistance:				
COPS More 2002 - Crime Analysis Software	16.710	2002CMWX0142	164,793	-
Asset Forfeiture	16.000	CA0195300	286,792	-
Elder Abuse and Advocacy and Outreach Program	16.575	EA09-12-7625 / EA08-11-7625	78,426	-
Passed through the City of Los Angeles:				
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.804	2009-SB-B9-2024	199,160 *	-
Total Department of Justice			729,171	-
<u>Department of Treasury</u>				
Direct Assistance:				
Asset Forfeiture	21.000	CA 1953	45,026	-
Total Department of Treasury			45,026	-
<u>Department of Agriculture</u>				
Passed through the State of California Department of Agriculture:				
Supplemental Food Program for Women, Infants and Children (WIC)	10.557	08-85456 A01	1,158,735 *	-
Total Department of Agriculture			1,158,735	-

* 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 <u>Subrecipients</u>
<u>Department of Transportation</u>				
Passed through the California Department of Transportation:				
Highway Planning and Construction	20.205	Various	414,488 *	-
Highway Planning and Construction - ARRA	20.205	ESPL-5064(061)	3,479,477 *	-
Federal Transit Capital Investment Grant - ARRA	20.500	Various	312,877	-
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	SAG455127-10	46,400	-
State and Community Highway Safety	20.600	Various	<u>297,572</u>	-
Total Department of Transportation			<u>4,550,814</u>	<u>-</u>
<u>Department of Homeland Security</u>				
Passed through the County of LA				
2007 State Homeland Security Grant Program	97.005	2007-0008,OES#37-00000	50,000	-
2008 State Homeland Security Grant Program	97.005	2008-0006,OES#37-00000	720,300	-
Passed through the City of Los Angeles				
2006 Urban Areas Security Initiative	97.008	C-112112	5,607	-
2007 Urban Areas Security Initiative	97.008	C-114337,OES#037-95050	199,364	-
2008 Urban Areas Security Initiative	97.008	C-116131	<u>292,641</u>	-
Total Department of Homeland Security			<u>1,267,912</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 33,361,962</u>	<u>1,846,410</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, 2010

(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, 2010, the City disbursed \$1,846,410 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

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

Total grant expenditures for the Elder Abuse and Advocacy and Outreach Program of \$78,426 are for operating expenditures of two grant years. The City's match on the Victims of Crime Act (VOCA) grant were operating expenditures of \$22,500 for grant year ending September 30, 2010 and \$19,125 for grant year ending September 30, 2009.

CITY OF PASADENA

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(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 was one significant deficiency in internal control over financial reporting that we described as item 2010-01 and 2009-01.
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 Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA #10.557
 - Department of Housing and Urban Development – Homelessness Prevention and Rapid Re-Housing Program – CFDA # 14.257
 - Department of Justice – Edward Byrne Memorial Justice Assistance Grant – CFDA# 16.804
 - Department of Transportation – Highway Planning and Construction – CFDA #20.205
 - Department of Housing and Urban Development – Community Development Block Grant Cluster – CFDA #14.218 and CFDA # 14.253
 - Department of Labor – Workforce Investment Act Program Cluster – CFDA #17.258, 17.259, 17.260
8. The dollar threshold used to distinguish Type A and Type B programs were \$1,000,859.
9. The auditee was considered a low risk auditee for the year ended June 30, 2010 for the purposes of determining major programs.

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

(2010-01) Need to Improve Control over Paramedic Billing and Collections

During our review of the accounts receivable, we noted that the recorded Paramedic Receivables as of June 30, 2010 were over \$7 million with allowance for doubtful account calculated as 50% of the receivable amount. Fiscal Year 2010 is the first year that the City contracted a third party to perform billing and collection for Paramedic receivables. There was no yearend accounts receivable aged report that was presented for audit purposes because the City is unable to obtain such report from its contractor. We reviewed the report that the City obtained from the contractor which shows a summary of monthly billing amounts and collections and noted that there is a column for "Unbilled and Write Off" that amounted to over \$1 million. Per our inquiry with City personnel, this amount represents amounts that are not billed pending additional information to complete the billing. As a best practice, a year end aging report should be periodically reviewed for old and slow-paying accounts. Additionally, the City should be able to obtain a detail of the unbilled and write off balance to be reviewed and ensure that there haven't been any write-offs not unauthorized by the City.

Recommendation

We recommend that the City continue their effort in working together with the contractor to improve control over billing and collection of the Paramedic Receivable.

Management's Comments Regarding Corrective Actions Planned

Management concurs with the auditors recommendations. As commented on above, the outside vendor was unable to provide a detailed accounts receivable aging at year end. Subsequently such a report has been received and staff is carefully reviewing and will implement further actions to validate the vendor data and improve the timely receipt of proper documentation from the vendor.

(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, 2010

The following is the status of prior audit findings:

(09-1) Enhancing Controls over Supplies Inventory

The City has a formal policy regarding inventory cycle counts. Cycle counts are performed regularly in accordance with the policy, with a focus on high-value material items. During the audit of fiscal year ended June 30, 2009 results of the cycle counts performed were validated through our physical inventory observation, although it was noted that one high ticket item that had been withdrawn from inventory remained reflected as inventory in the City's accounting records. It is important to identify and remove withdrawn inventory from the accounting records in a timely manner.

Recommendation

We recommend that the City continue to improve policies and procedures to enhance proper accountability over inventory records and physical inventory counts.

Status

Not Resolved. During year ended June 30, 2010, the City's Internal Auditor conducted an audit on controls over inventory of supplies. The internal auditor observed a cycle count of switches on three days in June 2010 and the result indicated that eight switches may have been withdrawn from inventory but remained as inventory in the accounting records. As of year-end these switches could not be identified and the City's accounting records had to be adjusted accordingly.

Management's Comments Regarding Corrective Actions Planned

PWP staff concurs with the recommendation for continued improvement of policies and procedures to ensure proper accountability of inventory records. Field personnel have received additional instruction as to the proper procedures to follow when requisitioning material. However, there are circumstances under which complete requisition information is not available at the time material is needed. PWP field operations personnel are required to respond to emergency power interruptions or water main breaks, often after regular business hours when materials inventory staff is not available. PWP has enhanced materials requisition procedures for emergency responses and will continue to pursue utility industry best-practices for managing inventory requisitions while ensuring that timeliness for emergency responses remains a top priority.

Although eight electrical switches were identified during the physical inventory count that had been withdrawn from inventory but remained in inventory based on accounting

CITY OF PASADENA

Summary Schedule of Prior Audit Findings

(Continued)

(09-1) Enhancing Controls over Supplies Inventory (Continued)

Management's Comments Regarding Corrective Actions Planned (Continued)

records, five of those switches were later located and properly classified. Only three electrical switches were included in the adjustment of accounting records.

Beginning in July 2010, materials inventory staff has implemented a tracking system whereby all items for which a requisition has not been issued are tracked in a separate log that includes the item number and description of the material to be removed, along with the date and name of the crew supervisor responsible for removing the material. The log book is then reconciled with actual work orders and requisitions issued with any differences resolved over a two week period.

In addition, a fence has been installed around the materials inventory that does not require forklift relocation to improve security. The fence ensures that proper paperwork and procedures are followed before material is issued. Additional security cameras will also be installed throughout the materials storage area to provide additional security for materials and equipment.