PASADENA COMMUNITY ACCESS CORPORATION
(A COMPONENT UNIT OF THE
CITY OF PASADENA, CALIFORNIA)

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

PASADENA COMMUNITY ACCESS CORPORATION
(A COMPONENT UNIT OF THE CITY OF PASADENA, CALIFORNIA)
YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

We have audited the accompanying basic financial statements of the Pasadena Community Access Corporation, a component unit of the City of Pasadena, California, as of June 30, 2011, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Pasadena Community Access Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not prepared a management's discussion and analysis and has not included budgetary comparison information. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The amount by which this departure would affect the results and the analysis of the financial position of the Pasadena Community Access Corporation is not reasonably determinable.

In our opinion, except for the effects of not preparing a management's discussion and analysis and not including budgetary comparison information, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Pasadena Community Access Corporation as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated January 30, 2012, on our consideration of the Pasadena Community Access Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and

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other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Pasadena, California
January 30, 2012

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2011

	2011
Assets:	
Current assets:	
Cash and cash equivalents (Note 2)	$ 358,164
Accounts receivable, net	10,000
Prepaid assets	3,058
Total current assets	371,222
Noncurrent assets:	
Capital assets (Note 3):	
Leasehold improvements	31,568
Furniture and fixtures	103,598
Production equipment	1,056,377
Less: accumulated depreciation	(1,091,402)
Capital assets, net	100,141
Total assets	$ 471,363
Liabilities:	
Current liabilities:	
Accounts payable and other liabilities	$ 12,474
Accrued salaries and benefits	25,480
Total current liabilities	37,954
Net assets:	
Invested in capital assets, net of related debt	100,141
Unrestricted	333,268
Total net assets	$ 433,409

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	2011
Operating revenues:	
Franchise fees	$ 434,527
Service contracts	336,011
Production and other operating revenue	12,075
Total operating revenues	782,613
Operating expenses:	
Salaries and benefits	627,246
Production expense	21,044
Contractual services	9,798
Other general and administrative	153,313
Depreciation	25,035
Total operating expenses	836,436
Operating loss	(53,823)
Nonoperating revenues (expenses):	
Loss on disposal of capital assets	(5,290)
Interest income	3,428
Total nonoperating revenues	(1,862)
Net loss	(55,685)
Net assets at beginning of year	489,094
Net assets at end of year	$ 433,409

PASADENA COMMUNITY ACCESS CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

	2011
Cash flows from operating activities:	
Cash received from customers	$ 12,075
Cash received from contracts	770,538
Cash paid to employees for services	(638,321)
Cash paid to supplies of goods and services	(185,035)
Net cash used in operating activities	(40,743)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(11,781)
Proceeds from Sale of Property and Equipment	5
Net cash used in capital and related financing activities	(11,776)
Cash flows from investing activities:	
Investment income	3,428
Net cash provided by investing activities	3,428
Net decrease in cash and cash equivalents	(49,091)
Cash and cash equivalents at beginning of year	407,255
Cash and cash equivalents at end of year	$ 358,164
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (53,823)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	25,035
(Decrease) in accounts payable and accrued expenses	(11,955)
Net cash used in operating activities	$ (40,743)

Noncash capital and related financing activities for the fiscal year related to depreciation of capital assets for $25,035. In addition, $5,290 of operating losses were recognized related to a sale of capital assets.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Pasadena Community Access Corporation (PCAC) was organized in 1983 as a nonprofit, telecommunications resource for the City of Pasadena, California (the City). PCAC was organized to perform the community access function of the Pasadena telecommunications system pursuant to the Cable Communications Ordinance of the City. In 2011, the City Council determined that the PCAC should be reported as a discretely presented component unit of the City in accordance with Generally Accepted Governmental Accounting Principles for Governments (GAAP).

The Board of Directors consists of eleven members (one representing the Pasadena Community College; one representing the Pasadena Unified School District). Residency is required except for representatives from Pasadena Community College and Pasadena Unified School District. These operations constitute part of the overall financial reporting entity of the City and are accounted for as a discretely presented component unit in the City's Comprehensive Annual Financial Report consistent with GAAP. Revenues and expenses of PCAC include direct revenues and expenses and certain allocations from the City.

B. Basis of Accounting

PCAC is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. PCAC utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

PCAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

C. Classification of Revenues

Operating revenues consist of charges to customers for sales and use of the facilities. *Nonoperating revenues* consist of investment earnings and other nonoperating income.

When both restricted and unrestricted resources are available for use, it is PCAC's policy to use unrestricted resources first, and then restricted resources as they are needed.

D. Capital Assets

Capital assets are recorded at cost and are depreciated over the estimated useful life of the asset using the straight-line method of depreciation. Donated capital assets are recorded at estimated fair value as of the date of the donation. All significant expenditures for repairs, renewals, and betterments that materially prolong the useful lives of the assets are capitalized.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Capital Assets (Continued)

The estimated useful lives of the assets are as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Production equipment	5 years

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

F. Investments

Investments are reported in the accompanying statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* include interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

G. Compensated Absences

Only full-time employees accrue vacation. Vacation time is accrued two to four weeks per year, depending on how long an employee has been with PCAC. PCAC also grants employees personal paid time off. Regular full-time and part-time (25 hours per week minimum) employees are eligible to accrue personal time off with pay. Full-time employees may accrue up to 20 personal days per calendar year. Part-time employees who work 24 hours per week or more are eligible to accrue personal paid time off on a pro rata basis. It is PCAC's policy to permit employees to accumulate earned but unused vacation benefits from year to year up to a maximum of two times a full-time employee's annual vacation amount. Personal paid time off is not accumulated from year to year.

All accumulated compensated absences are recorded as an expense and a liability at the time the benefit is earned.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011, consist of the following:

Cash on hand	$	386
Deposits with financial institutions		61,274
Investment in City of Pasadena Investment Pool		296,504
Total cash and cash equivalents	$	358,164

Investments Authorized by the California Government Code and PCAC's Investment Policy

The table below identifies the investment types that are authorized for PCAC by the California Government Code. Other than what is in the Code, PCAC has no other investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	* Maximum Maturity	* Maximum Percentage of Portfolio	* Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20%	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that PCAC manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the actual rating as of year-end for each investment type.

Investment Type		Minimum Legal Rating	Rating as of Year-End Not Rated
Investment in City of Pasadena Investment Pool	$ 296,504	N/A	$ 296,504
Total	$ 296,504		$ 296,504

Concentration of Credit Risk

There were no investments in anyone issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total PCAC investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure PCAC deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is as follows:

	June 30, 2010	**Additions**	**Dispositions**	**June 30, 2011**
Leasehold Improvements	$ 31,418	$ 150	$ -	$ 31,568
Furniture and Fixtures	102,948	650	-	103,598
Production Equipment	1,050,691	10,981	(5,295)	1,056,377
Total Property and Equipment	1,185,057	11,781	(5,295)	1,191,543
Less: Accumulated Depreciation	(1,066,367)	(25,035)	-	(1,091,402)
Total Property and Equipment, Net	$ 118,690	$ (13,254)	$ (5,295)	$ 100,141

Depreciation expense for the year was $25,035.

NOTE 4 – DEFINED CONTRIBUTION PENSION PLAN

Effective January 1, 2004, PCAC adopted a defined contribution 403(b)(7) pension plan (the plan) for which all employees who have completed one year of service (as defined in the plan) are eligible to participate. The employees of PCAC may elect to contribute to the plan (subject to overall limits) in any one plan year provided the plan does not violate certain conditions as set forth in the plan document. Each year PCAC will make a matching contribution to the plan, for the employees who are contributing to the plan, up to 2% of the first 2% of the employee's total compensation. In addition, PCAC may choose to make an additional contribution to the plan of 2% of compensation for eligible employees; however, this discretionary contribution is not required. PCAC and employee contributions are fully vested immediately upon contribution to the plan.

PCAC contributed $5,313 to the plan for the year ended June 30, 2011.

NOTE 5 – OPERATING LEASE

PCAC leases office and production facilities in Pasadena, California, under an operating lease agreement (the agreement). The agreement was extended to May 31, 2008, with two options to extend for two years per option. Pursuant to the agreement, PCAC is obligated to pay utilities, property taxes, insurance, and normal repairs and maintenance for the space that PCAC occupies.

Future annual minimum lease payments provided for under the agreement as of June 30, are as follows:

2012	$	30,500
	$	30,500

Total rent expense for the year ended June 30, 2011, was approximately $79,210.

NOTE 6 – OTHER PROVISIONS OF REVENUES AND CONTRACTS

Franchise Fees

On December 2, 1983, a 15-year cable franchise agreement (the Agreement) was entered into by and between the City and a cable communications operator (Cable Operator). According to the terms of the Agreement, PCAC is entitled to receive 2% of the Cable Operator's gross revenues (as defined in the Agreement) in return for providing the public access and public service programming function of the Cable Operator's communications system. This agreement expired during the year ended June 30, 1999. The City committed to continue to fund the agreement, after expiration, until a new agreement could be reached.

Effective October 1, 2000, the City and the Cable Operator entered into a new nonexclusive franchise agreement to operate a cable television system in the City. Although the City continues to fund at 2% of the Cable Operator's gross revenues, the funding amount is discretionary.

In addition to the above, PCAC will receive up to 160 hours per month of studio time at the Cable Operator's facility. PCAC began use of the facilities in August 2001. In exchange for the studio time, PCAC moved certain production equipment from their studio facility to the Cable Operator's studio facility.

NOTE 6 – OTHER PROVISIONS OF REVENUES AND CONTRACTS (Continued)

Channel 55 KPAS Service Contract

On August 24, 1998, PCAC entered into a 2-year contract with the City to provide administrative and production services for Channel 55 KPAS (the Contract). Production services include broadcasting City Council Meetings, City Beat, News Brief, and other additional programs approved by the City. According to the terms of the Contract, the City would pay PCAC up to $237,000 per year for these services. The Contract expired on September 30, 2004. Effective October 1, 2004, the City and PCAC amended and extended the Contract to September 30, 2010.

Effective October 1, 2010, the City and PCAC amended and extended the Contract to September 30, 2012. Pursuant to the terms of the Contract, the City will pay PCAC an amount, in accordance with a budget approved by the City, not to exceed $324,627 per year beginning October 1, 2010.

Other Contracts

PCAC earns additional service contract revenue by providing various production services to other municipalities.

NOTE 7 – CONCENTRATIONS OF REVENUE

Support Revenue

For the year ended June 30, 2011, revenue from the Franchise Fee agreement accounted for 55% of total revenue.

For the year ended June 30, 2011, revenue from the service contract with KPAS accounted for 40% total revenue.

NOTE 8 – SUBSEQUENT EVENT

Management has judged the subsequent events from June 30, 2011, through the date of the independent auditors report on the basic financial statements. Subsequent to June 30, 2011, a new Executive Director was hired.

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

Board of Directors
Pasadena Community Access Corporation
Pasadena, California

We have audited the basic financial statements of the Pasadena Community Access Corporation (PCAC), a component unit of the City of Pasadena, California, as of June 30, 2011, and for the year then ended. 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

Management of PCAC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PCAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCAC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PCAC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Report of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 deficiencies described in the accompanying Report of Findings and Recommendations to be material weaknesses. [2011-1 and 2011-2].

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 accompany Report of Findings and Recommendations to be significant deficiencies. [2011-3 through 2011-6].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCAC'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.*

PCAC's response to the findings identified in our audit is described in the accompanying Report of Findings and Recommendations. We did not audit PCAC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City of Pasadena, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Eric S. Berman

Pasadena, California
January 30, 2012

Current Year Findings and Recommendations

2011-1 – Material Weakness over Financial Reporting

Observation:
Management is responsible for establishing and maintaining effective internal control over financial reporting. In performing our audit of the financial statements, we identified numerous material adjustments in nearly all significant transaction classes including cash, depreciation, accrued payroll, revenue, payables, and other areas. The following adjustments were needed to correct account balances that were materially misstated:

- Record sale of equipment to former Executive Director
- Record depreciation expense for the year
- Adjust accrued vacations to proper balances
- Adjust Franchise Fees from cash basis to accrual basis
- Reversal of debit liability accounts
- Reversal of prior year payable balance
- Record current year payable balance
- Accrue salaries payable at year end
- Reconcile cash to bank reconciliation statement

As a result of these material adjustments, we have determined there is a more than remote likelihood of a material misstatement of the financial statements.

Recommendation:
We recommend that the Board of Directors (Board) find a replacement Executive Director in order to establish internal controls and segregation of duties. Management has hired an external bookkeeper to assist in the recording of financial information; however, management needs to work more actively with the bookkeeper so that his expertise can be utilized, leading to more reliable financial information.

Management Response/Corrective Action Plan:
The Board of Directors has found a replacement Executive Director whose initial tasks include providing internal controls and segregation of duties in written form. The organization will endeavor to work more actively with the bookkeeper to utilize their expertise.

2011-2 – Material Weakness in Controls over Payroll

Observation:
There is no control to catch incorrect changes to the ADP system, nor to guard against personnel from taking paid time off and not recording it in ADP. We noted the client's Accrued Vacations Schedule correctly calculated vacation hours owed at year-end for all employees, except for a senior official; the schedule did not correctly reduce that official's total by the vacation time used in the fiscal year. The former Executive Director used to look over the ADP report before the checks were paid and allow for a level of review on any information the official would prepare, specifically information relating to her. However, due to the Executive Director no longer being with Pasadena Community Access Corporation (PCAC), many of these responsibilities fell to the official and now there are significant segregation of duty issues and no review process. The effect of the condition is that there is no level of review, which allows for misstatement in financial reporting, either due to error or fraud.

Recommendation:
We recommend that the Board find a replacement Executive Director in order to take over some of these responsibilities and establish segregation of duties. Furthermore, we recommend immediately implementing some temporary review process because it is unknown how long it may take for a replacement to be hired.

Management Response/Corrective Action Plan:
The Board of Directors has found a replacement Executive Director whose initial tasks include providing internal controls and segregation of duties in written form.

2011-3 – Employee Paid for Incorrect Hours

Observation:
An employee actually worked 55 hours of normal time, and 6 hours of overtime for a total of 61 hours. However, they were paid for 65 hours of straight time instead. The employee had forgotten to turn in his timesheet, so a senior official called the employee for verbal confirmation of the number of hours (employee said 65) so she could process payroll. The employee later emailed the official and cc'd his direct supervisor to inform them of the correct number of hours (61). He said that the difference should reconcile with the overtime, and this official just submitted the 65 hours. The dollar amount did not reconcile and, as a result, the employee was overpaid.

Recommendation:
We recommend a stronger review over time sheets, especially in unusual circumstances like this. Hours reported on the time sheet should directly tie to the ADP system, and existing procedures in place should be followed more closely. We also recommend that the Board find a replacement Executive Director in order to take over some of these responsibilities and establish stronger internal control system.

Management Response/Corrective Action Plan:
The Executive Director will be implementing a new timesheet entry system that will ensure accuracy of entry and reporting.

2011-4 – Capital Assets and Depreciation

Observation:
PCAC failed to write-off over $5,000 of capital assets that were removed from its inventory when former Executive Director resigned, and as part of his Employment Agreement, purchased and kept this equipment. As a result, fixed assets are overstated by the amount.

Also, PCAC management failed to depreciate the existing capital assets. This occurred because they were in a transitional period from an old accountant to the current one, who was not properly informed of the transactions to be made. As a result, depreciation expense and accumulated depreciation are off by the current year expense of about $25,000.

Recommendation:
We recommend that PCAC make journal entries for the sale of capital assets to Don Repella and current year depreciation. We also recommend that management depreciate the existing and new capital assets using a simple depreciation schedule to ensure this does not happen again in the future.

Management Response/Corrective Action Plan:
The recommendation that management depreciate the existing and new capital assets using a depreciation schedule is accepted and the appropriate journal entries will be made.

2011-5 – Franchise Fee Revenue

Observation:
PCAC understated Franchise Fee revenue by $9,532 as a result of not properly recording revenues on the accrual basis of accounting. Franchise Fees recorded as revenue included all fees actually received during the fiscal year. However, one of the fees recorded was for April through June of 2010, and should not have been recorded for fiscal year 2011. Also, PCAC failed to record fees for April through June of 2011, despite being received on June 30, 2011.

Recommendation:
We recommend that PCAC make the adjusting journal entry to properly state the fair value of Franchise Fees for the fiscal year. We also recommend that PCAC be more cognizant of this issue in the future so that they only record fees that were earned in the period, and not what was actually received.

Management Response/Corrective Action Plan:
The organization will endeavor to provide journal entries of properly accrued quarter two (April-June) franchise fees scheduled for mid-August payment (forty-five days following quarter end).

2011-6 – Year-End Adjustments

Condition:
Significant adjustments being made during the audit was a problem again in the current year. Significant entries were made in the areas of depreciation, accrued payroll, revenue, payables, and other areas for the trial balance to be fairly stated from known differences. Also, we were to receive a completed trial balance prior to our fieldwork in the beginning of August; however, we still did not have a finalized trial balance, including all adjusting journal entries, until mid-November. See repeat finding below.

Recommendation:
We recommend that all year-end adjustments be recorded prior to the start of the audit. This would include management having their bookkeeper review all financial information prior to the audit so issues or adjustments can be taken care of by management, and not by the auditors.

Management Response/Corrective Action Plan:
The organization will have the bookkeeper review all financial information prior to the audit.

Prior Year Findings and Recommendations

2010-1 – Year-End Adjustments

Condition:
For the year-ended June 30, 2010, material adjustments detected by the audit process included accruing expenses paid in the subsequent period which related to the fiscal year ended June 30, 2010.

Recommendation:
We recommend that all year-end adjustments be recorded prior to the start of the audit.

Current Year Status:
Significant adjustments being made during the audit was a problem again in the current year. Significant entries were made in the areas of cash, depreciation, accrued payroll, revenue, payables, and other areas for the trial balance to be fairly stated from known differences. Also, we were to receive a completed trial balance prior to our fieldwork in the beginning of August; however, we still did not have a finalized trial balance, including all adjusting journal entries, until mid-November. See repeat finding above.