



Agenda Report

January 12, 2015

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

THROUGH: Audit Committee

FROM: Director of Finance

SUBJECT: FISCAL YEAR JUNE 30, 2014 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following reports for the year ended June 30, 2014 be received by the City Council and/or the Successor Agency to Pasadena Community Development Commission.

- A. Comprehensive Annual Financial Report
- B. Single Audit Reports
- C. Management Letter – City of Pasadena
- D. Pasadena Center Operating Company Basic Financial Statements
- E. Rose Bowl Operating Company Basic Financial Statements
- F. Pasadena Community Access Corporation 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 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 Auditor's Communications with the City's Audit and Finance Committee
- L. 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

EXECUTIVE SUMMARY:

This action is to receive and file the City's six annual financial statements and six compliance-related reports for the fiscal year ended June 30, 2014. All financial statements received an unqualified (or clean) opinion. No material weaknesses in internal controls were noted. One significant deficiency was identified and three additional findings were reported in the Management Letter. Two of these findings, Finding 14-01 and 14-04, are of major significance and will result in a number of changes as was presented to you on January 5, 2015. One significant deficiency was reported in the Single Audit Reports. A brief presentation will be made by the City's external auditors, Brown Armstrong, Certified Public Accountants.

BACKGROUND:

All six 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..." The six remaining reports presented deal with compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

Comprehensive Annual Financial Report (CAFR)

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 CAFR for the year ending June 30, 2014, 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 on Federal Awards:

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 \$500,000 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. The Single Audit Reports for Fiscal Year ended June 30, 2014 contains two reports. The first one reports on internal control over financial reporting and found no material weaknesses in internal control over financial reporting and no instances of noncompliance or other matters requiring disclosure. The second report on compliance with major federal programs found that the City complied in all material respects with the requirements that have a direct and material effect on each of the City's major

federal programs. However, there was one lesser matter that was identified as a significant deficiency in federal programs. This matter found that three of four sub-recipients tested submitted their Annual Progress Reports late. A management response and corrective action plan is provided and staff will fully address this finding.

Management Letter

The management letter explains the auditor's audit of the City's financial reports in relation to their review of internal controls. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. In determining what procedures to use and the size of samples some evaluation of internal controls is made. Audit procedures not include review of 100 percent of transactions. The management letter provides definitions of "deficiency in internal control", "material weakness", and "significant deficiency" involving the internal control structure. This year's audit did not identify any material weaknesses, but did identify one significant deficiency. Additionally, the Auditors have identified certain "other matters" and make recommendations for improvement. These are contained in the Management Letter as current year recommendations. The Management Letter also contains an update on the status of two prior year "other matters". These comments and recommendations have been reviewed with the appropriate members of City staff and responses provided. In all cases staff is fully aware of the issues and has already or will fully address the issues. Staff is also implementing the action plans presented to City Council on January 5, 2015.

Component Unit Financial Statements

Financial statements for Pasadena Center Operating Company, Rose Bowl Operating Company, Pasadena Community Access Corporation, 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. The Air Quality Improvement Fund Financial and Compliance Report received on unqualified opinion.

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.

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 Great West Retirement Services. No exceptions were noted.

The Auditor's Communications with the City's Audit and Finance Committees

One auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires defined 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 provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management. They point out that management has corrected all known misstatements, even those that could be passed adjustments that would be not material either individually or in the aggregate.

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

The auditors also consider the City's internal control over financial reporting to determine audit procedures that they deem appropriate to allow them to render

an opinion. They did not notice any instances of noncompliance or other matters that are required to be communicated.

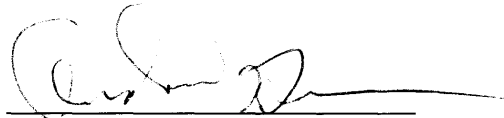
COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the receipt and review of these reports.

FISCAL IMPACT:

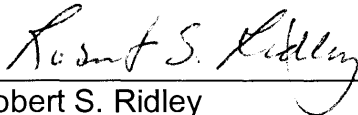
There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



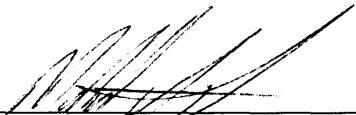
ANDREW GREEN
Director of Finance

Prepared by:



Robert S. Ridley
Controller

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (11)

- A. Comprehensive Annual Financial Report
- B. Single Audit Reports
- C. Management Letter – City of Pasadena
- D. Pasadena Center Operating Company Basic Financial Statements
- E. Rose Bowl Operating Company Basic Financial Statements

Fiscal Year June 30, 2014 Annual Financial Reports

January 12, 2015

Page 6 of 6

- F. Pasadena Community Access Corporation 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 the City's Audit and Finance Committees
- L. 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