

Agenda Report

March 14, 2016

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

THROUGH: Finance/Audit Committee

FROM: Director of Finance

SUBJECT: FISCAL YEAR JUNE 30, 2015 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following reports for the year ended June 30, 2015 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 –To be presented at a later meeting
- C. 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 (This replaces what was called the "Management Letter")
- 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 Independent Auditor's Report and Basic Financial Statements With 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

EXECUTIVE SUMMARY:

This action is to receive and file the City's six annual financial statements and five compliance-related reports for the fiscal year ended June 30, 2015. All financial statements received an unqualified (or clean) opinion. Twenty five material weaknesses in internal controls were noted. Five significant deficiencies were identified and three additional findings were reported in the 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. A management response is provided for all material weaknesses and significant deficiencies. In most instances corrective action has already occurred or an action plan to address the finding established. A brief presentation will be made by the City's external auditors, Lance, Soll & Lunghard, LLP.

BACKGROUND:

This year's audit was the first performed by Lance, Soll & Lunghard, LLP, who was awarded a three year contract to perform the City's audits on May 18, 2015. The contract calls for an expanded scope audit with samples from every City fund and a reduced level of materiality so that sample sizes are increased. 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 five 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, 2015, 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 Report would traditionally be presented by this time. As it is not yet complete, it will be brought to you in the very near future. 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.

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 (This replaces what was called the "Management Letter")

This report 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. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have every fund looked at and for sample sizes to be greater than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control", "material weakness", and "significant deficiency" involving the internal control structure. This year's audit identified twenty-five material weaknesses and five significant deficiencies. Additionally, the Auditors have identified three "other matters" and made recommendations for improvement. These comments and recommendations have been reviewed with the appropriate members of City staff and City responses are provided. In all cases staff fully understands the issues and has already or will fully address the issues.

The areas with the most findings were Capital Assets with eight findings and Purchasing Cards with four findings. The Capital Asset findings reflect the need for a fully functioning ERP Fixed Asset module which is one component of the Tyler Munis implementation. The City has used an Excel spreadsheet for a number of years to track capital assets as the PeopleSoft fixed asset module had issues. Some of the findings point to the need for additional collaboration between other Departments and Finance. In regards to the Purchasing Card findings it should be noted that the entire program was evaluated and re-implemented at the beginning of Fiscal Year 2016, addressing these findings.

Lastly, a number of the items raised were issues that staff had previously identified, brought to the auditor's attention, and corrected.

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. A very minor difference based on rounding was found.

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.

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.

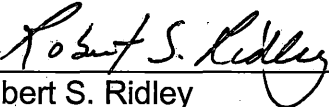
FISCAL IMPACT:

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,


MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:


Robert S. Ridley
Controller

Approved by:


STEVE MERMELL
Interim City Manager

Attachments: (11)

- A. Comprehensive Annual Financial Report
- B. Single Audit Reports (To be presented at a later meeting)
- C. 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
- 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 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