



CPAs AND ADVISORS

INDEPENDENT AUDITORS' 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*

To the Honorable Mayor and Members of the City Council
City of Pasadena, California

We have audited, in accordance with the 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, 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, California, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 following deficiencies to be material weaknesses:

Capital Assets

During our audit procedures and a result of City analysis, it was noted that a large restatement was required due to project job orders (PJOs), which should have been capitalized and placed in services in previous years, not being removed from projects in progress and depreciated. LSL noted that this restatement is primarily due to a change in City practice and determination of when work performed on long-term projects is deemed complete.

Management's Response: The City agrees with this finding. This finding resulted from the City initiated comprehensive review of all projects which led to a restatement. Through this process department project managers gained a better understanding of the accounting requirements for capital assets. Finance will continue to monitor and facilitate proper accounting.





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Grants Reconciliation

During the current year, LSL noted that the current year amount reported on the City's Schedule of Expenditures of Federal Awards (SEFA), related to the City's La Loma Bridge Grant project (CFDA# 20.205) included expenditures related to prior-period grant costs. While the total cumulative amount reported agrees to the total federal project expenditures, a material adjustment, totaling \$453,587, was required on the current year SEFA, in order to properly report the prior period expenditures which were not reported in the period incurred. LSL noted that this issue was primarily caused by a prior year error in the calculation of the estimate of the federal costs, as well as delays due to settlement of claims, including granting agency approvals and required subsequent city council action. LSL recommends that the amounts reported on the SEFA at year-end be thoroughly reviewed to ensure that federal expenditures are reported in the accounting period in which they are incurred.

Management's Response: The City agrees with this finding and will implement the recommendation.

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 following deficiencies to be significant deficiencies:

Bank Reconciliations

During our audit procedures, we noted that the City lacks policies requiring departments to finalize cash batches and investigate issues in a timely manner. As a result, the City's bank reconciliations contain multiple unresolved reconciling items. We recommend the City implement policies requiring departments to clear discrepancies and close batches on a timely basis in order to properly reconcile cash.

Management's Response: The City agrees with this finding. The City has modified its policy for cash handling requiring departments to submit complete, timely, and accurate batches. The policy also includes the requirement that all issues be investigated, discrepancies cleared, and batches posted within five working days.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*:

City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
January 24, 2019