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CITY OF PASADENA, CALIFORNIA

JUNE 30, 2018

SINGLE AUDIT REPORT

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JUNE 30, 2018

CITY OF PASADENA

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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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2018-001 and 2018-002.

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 deficiency to be a significant deficiency: 2018-003.



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

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.

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.

Brea, California
January 24, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pasadena, California (the City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-004 to 2018-009. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-004 to 2018-009, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, California, 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. We issued our report thereon dated January 24, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lance, Solt & Lughard, LLP

Brea, California

January 31, 2019 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 24, 2019)

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's DUNS	Pass-Through Grant ID Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture					
Passed through the State of California Department of Agriculture: Special Supplemental Nutrition Program for Women, Infants and Children *	10.557	80-748-7665	05-45781	\$ 1,262,425	\$ -
Passed through the State of California Department of Public Health: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	79-915-0615	16-10156	293,938	-
Total U.S. Department of Agriculture				1,556,363	-
U.S. Department of Housing and Urban Development					
Direct Programs:					
Community Development Block Grants/Entitlement Grants	14.218	N/A	N/A	7,206,352	268,640
Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	N/A	395,292	-
Emergency Solutions Grant Program	14.231	N/A	N/A	143,865	132,631
Home Investment Partnerships Program *	14.239	N/A	N/A	814,045	-
Continuum of Care Program	14.267	N/A	N/A	2,552,152	1,577,033
Section 8 Housing Choice Vouchers *	14.871	N/A	N/A	14,000,374	-
Passed through the City of Los Angeles: Housing Opportunities for Persons with AIDS	14.241	06-992-8349	C-126938	100,827	-
Total U.S. Department of Housing and Urban Development				25,212,907	1,978,304
U.S. Department of the Interior					
Direct Programs:					
Title XVI Water Reclamation and Reuse	15.504	N/A	N/A	461,616	-
Water Conservation Field Services	15.530	N/A	N/A	28,081	-
Total U.S. Department of the interior				489,697	-
U.S. Department of Justice					
Direct Programs:					
Equitable Sharing Program	16.922	N/A	N/A	81,160	-
Total U.S. Department of Justice				81,160	-
U.S. Department of Labor					
Passed through the State of California Employment Development Department: Employment Service/Wagner-Peyser Funded Activities WIOA Cluster	17.207	61-421-5531	K7104595	28,613	-
WIA/WIOA Adult Program	17.258	61-421-5531	K7102027, K8106173	587,978	134,713
	17.258	61-421-5531	K7102027	8,596	-
	17.258	61-421-5531	K7102027	256,738	65,675
	17.258	61-421-5531	K7102027	2,850	-
WIA/WIOA Youth Activities	17.259	61-421-5531	K7102027, K8106173	629,145	33,372
WIA/WIOA Dislocated Worker Formula Grants	17.278	61-421-5531	K7102027, K8106173	455,105	104,865
	17.278	61-421-5531	K7102027, K8106173	51,892	-
	17.278	61-421-5531	K7102027	220,110	-
	17.278	61-421-5531	K7102027	242,165	68,400
<i>WIOA Cluster Total</i>				2,454,579	407,025
Total U.S. Department of Labor				2,483,192	407,025
U.S. Department of Transportation					
Passed through the State of California Department of Transportation: Highway Planning and Construction *	20.205	13-525-3776	HP21L-5064-(020)	1,700,883	-
	20.205	13-525-3776	BHLS-5064 (078)	113,569	-
	20.205	13-525-3776	CML-5064 (079)	150,915	-
	20.205	13-525-3776	HSIPL5064-(076)	36,134	-
	20.205	13-525-3776	CML-5064 (083)	167,782	-
	20.205	13-525-3776	HSIPL5064-(084)	41,071	-
Federal Transit Capital Investment Grants	20.500	13-525-3776	HPLUL-5064 (057)	17,273	-
	20.500	13-525-3776	CA-04-0094	95,164	-
<i>Transit Services Programs Cluster</i>					
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	13-525-3776	CA-16X066	434,700	-
	20.513	13-525-3776	CA-16X066	93,118	-
Job Access and Reverse Commute Program	20.516	13-525-3776	CA-37-X123-01	77,373	-
	20.516	13-525-3776	CA-37-X171	289,754	-
<i>Transit Services Programs Cluster Total</i>				894,945	-
State and Community Highway Safety	20.600	13-525-3776	PS1710	114,606	-
	20.600	13-525-3776	PS18020	31,432	-
	20.600	13-525-3776	PT1789	42,971	-
	20.600	13-525-3776	PT18111	104,915	-
	20.608	13-525-3776	PT1789	43,110	-
	20.608	13-525-3776	PT18111	123,973	-
Total U.S. Department of Transportation				3,678,743	-

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's DUNS	Pass-Through Grant ID Number	Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	N/A	N/A	372,614	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	N/A	103,876	-
Racial and Ethnic Approaches to Community Health Special Projects of National Significance	93.304	N/A	N/A	303,965	-
	93.928	N/A	N/A	84,202	-
Passed through the County of Los Angeles:					
Public Health Emergency Preparedness	93.069	62-488-2309	PH-003349	262,376	-
Temporary Assistance for Needy Families	93.558	62-488-2309	IA0614	76,000	-
HIV Prevention Activities Health Department Based	93.940	62-488-2309	PH-00809-2	94,878	-
Alcohol and Drug Abuse and Mental Health Services Block Grant	93.992	62-488-2309	H702536	272,187	-
Passed through the State of California					
Department of Public Health:					
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	79-915-0615	NU52PS004656	16,201	-
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	79-915-0615	17-10227	68,569	-
Immunization Cooperative Agreements	93.268	79-915-0615	13-20337	65,278	-
Medical Assistance Program	93.778	79-915-0615	15-10146	233,967	-
Maternal and Child Health Services Block Grant to the States	93.994	79-915-0615	201061	255,514	-
Passed through the Public Health Foundation Enterprises, Inc.:					
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	08--219-9324	6NU50CK000410-03-06	29,546	-
Passed through the South Bay Workforce Investment Board, Inc.:					
Temporary Assistance for Needy Families	93.558	02-204-9122	16WXXX22564	120,593	-
Total U.S. Department of Health and Human Services				2,359,766	-
<u>U.S. Department of Homeland Security</u>					
Passed through the City of Los Angeles:					
Homeland Security Grant Program	97.067	06-992-8349	EMW-2015-SS-00078	143,675	-
Homeland Security Grant Program	97.067	06-992-8349	EMW-2016-SS-00102	36,457	-
Passed through the County of Los Angeles:					
Homeland Security Grant Program	97.067	62-488-2309	EMS-2015-SS-00078	22,076	-
Total U.S. Department of Homeland Security				202,208	-
Total Expenditures of Federal Awards				36,064,036	\$ 2,385,329
<u>Federal Loan Balances with a Continuing Compliance Requirement</u>					
CDBG Loan (beginning balance)*	14.218			22,678,106	
HOME - Investment Partnership Program (beginning balance)	14.239			10,738,711	
Section 8 Low Income Housing - Voucher Program (beginning balance)	14.871			50,000	
Total Federal Loan Balances with a Continuing Compliance Requirement				33,466,817	
TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS				\$ 69,530,853	

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

CITY OF PASADENA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 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, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include 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 is 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. The City has elected not to use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

Note 2: Section 108 Loan Guarantee Program

On October 29, 2015, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development in the amount of \$6,000,000 for the Robinson Park Project. Principal is payable in annual installments of \$300,000 commencing on August 1, 2016 and ending August 1, 2035. Interest rate is variable and set on the first day of each month to 20 basis points (0.2%) above the London Interbank Offered Rate (LIBOR). Interest payment is paid quarterly from the effective date of November 12, 2015. The balance outstanding as of June 30, 2018, is \$5,400,000.

Note 3: Loan Programs with Continuing Compliance Requirements

The program costs listed below are administered directly by the City of Pasadena, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2018 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2018</u>
14.218	CDBG Entitlement	\$ 22,900,569
14.239	HOME - Investment in Affordable Housing	10,948,788
14.871	Section 8 Low Income Housing - Voucher Program	50,000
		<u><u>\$ 33,899,357</u></u>

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes no
- Material weaknesses identified? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.239	Home Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program \$2,085,926

Auditee qualified as low-risk auditee? yes no

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2018-001: Capital Assets

Material Weakness

Condition

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.

Cause

This restatement is primarily due to a change in City practice and determination of when work performed on long-term projects is deemed complete.

Criteria

Only costs that are considered capitalizable should be capitalized, and they should be removed from project listings and start depreciation upon being placed into service.

Effect of Condition

Net capital assets could be misstated due to costs not being capitalized that should be and depreciation that should have been recorded.

Recommendation

We recommend that the City review project listings and PJOs more closely each year to ensure the status of projects, to determine whether projects should be capitalized, placed into service, and depreciated.

Management's Response and Corrective Action

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.

Finding 2018-002: Grants Reconciliation

Material Weakness

Condition

During the current year, we 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.

Cause

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.

Criteria

The City should be performing grant reconciliations on a timely basis to ensure all expenditures and revenues were captured during the fiscal year and maintain a proper cutoff date.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Effect of Condition

Outstanding expenditures that are not captured in the appropriate period may lead to misstated expenditures on both the financial statements and the SEFA, which is used for the Single Audit.

Recommendation

We recommend 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 and Corrective Action

The City agrees with this finding and will implement the recommendation.

Finding 2018-003: Bank Reconciliations

Significant Deficiency

Condition

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.

Cause

The bank reconciliations contain a large number of reconciling items, which needs to be analyzed and corrected in the system.

Criteria

The City should be clearing out reconciling items from the bank reconciliation on a timely basis in order to identify potential errors within the system and ensure their cash balance is correct.

Effect of Condition

Old items on the bank reconciliation could represent error or items that are not actual reconciling items, which could potentially misstate the cash balances.

Recommendation

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 and Corrective Action

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.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-004 – Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-17-MC-06-0527

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

The OMB Compliance Supplement requires that direct recipients of HOME program funding file the *HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons (OMB No. 2529-0043)* electronically through HUD's online submission portal, Section 3 Performance Evaluation and Registry System (SPEARS) within 90 days of the end of the grantee's program year in Appendix XI to 2 CFR part 200. However, according to HUD, if the program providing covered HUD funding requires an annual performance report (i.e. Consolidated Annual Performance and Evaluation Report (CAPERs report)), Form HUD 60002 should be submitted electronically at the same time the program performance report is submitted.

Condition

The City provided sufficient documentation of the *Section 3 Summary Report's* filing date of January 8, 2019, whereas the performance report, the CAPERs report, was submitted to HUD on October 1, 2018.

Cause of the Condition

At the time for submitting the CAPERs report, the City was pending information from various HOME subrecipients.

Effect or Possible Effect

The *Section 3 Summary Report* was not submitted timely.

Questioned Costs

No questioned costs were identified (\$0).

Context

The *Section 3 Summary Report* is an annual report that is filed with the CAPERs report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City ensure the filing of the *Section 3 Summary Report* with the annual CAPERs report due within 90 days after the end of the program year.

Management's Response and Corrective Action

We agree with the finding and have made the recommended correction. The HOME Policies and Procedures have been revised to include a funding agreement template which sets forth the Section 3 Summary Report requirement. Specifically, the Schedule of Performance exhibit of the funding agreement template identifies the Section 3 Summary Report as a contractor submittal requirement. This will ensure that the Housing Department has the Section 3 data available for filing with the annual CAPER in a timely manner.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Finding 2018-005 – Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-17-MC-06-0527

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

The grant award agreement stipulates that the grantee shall comply with the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. The City is required under FFATA to report subawards greater than or equal to \$25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made.

Condition

As part of our audit testing, we obtained and inspected the FFATA report filed for the program year and determined that City did not prepare FFATA reports in a timely manner for the fiscal year ended June 30, 2018. The subrecipient award was made in September 2017, but the FFATA report was not filed.

Cause of the Condition

In prior years, the City was not aware that the FFATA reporting requirements were applicable, resulting from inadequate internal controls relating to identification of reporting requirement for the grant program. However, in the prior fiscal year, the City filed the FFATA reports as necessary. In fiscal year 2017-2018, the City did not file the report by the required reporting deadline.

Effect or Possible Effect

The City did not comply with the reporting requirements of FFATA or the grant agreement.

Questioned Costs

No questioned costs were identified (\$0).

Context

The subrecipient agreements greater than \$25,000 were signed and implemented during the fiscal year 2017-2018, but the City did not file the necessary FFATA report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City continue to implement procedures and controls to identify required reports and reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management's Response and Corrective Action

We agree with the finding and have made the recommended correction. The HOME Policies and Procedures have been revised to include a contract routing form which includes as a Housing Department task the filing of the FFATA report upon receipt of the fully-executed contract.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Finding 2018-006 – Procurement, Suspension, and Debarment Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-17-MC-06-0527

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entity were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition

In the prior fiscal year, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, and the proof of SAM clearance will be attached to the vendor's profile in Tyler Munis. However, the subaward questioned in this finding was made prior to the amended policy, thus no SAM check was conducted at the time of the award.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We sampled the subrecipient files for the City's subaward and noted that the entity selected was missing documentation for SAM clearance.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management's Response and Corrective Action

We agree with the finding and will make the recommended correction. The HOME Policies and Procedures will be revised to include a procurement checklist. The checklist will include verification by the Housing Department of SAM clearance. Target completion: 3/31/19. In the meantime, the SAM verification of clearance will be performed before entering into any new covered transaction.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Finding 2018-007 – Subrecipient Monitoring

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-17-MC-06-0527

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

According to *Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities*, all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and include the following information at the time of the subaward and if any of these data elements change, include the changes in a subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. The required information includes:

- Subrecipient name
- Subrecipient's unique entity identifier
- Federal Award Identification Number (FAIN)
- Federal award date of award to the recipient by the Federal agency
- Subaward Period of Performance start and end date
- Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient
- Total amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation
- Total amount of the Federal award committed to the subrecipient by the pass-through entity
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official at the pass-through entity
- CFDA number and name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
- Identification of whether the award is R&D; and
- Indirect cost rate for the Federal award (including if the de minimis rate is charged per Section 200.414)

Condition

As part of our audit testing, we sampled a subrecipient file and agreement for the subawards made to a not-for-profit entity that received HOME program funds from the City. We noted that the Subrecipient Agreements did not include a CFDA Number or the Federal Award Identification Number (FAIN) as required by the Uniform Guidance; thus, the information was not provided to the subrecipient of the City.

Cause of the Condition

The Housing and Career Services Department, which administers the HOME Program, has not updated its Subrecipient Agreement Template to include the CFDA Number and FAIN, as required by the Uniform Guidance.

Effect or Possible Effect

The Subrecipient Agreements made by the City did not meet the required information standards as described in the Uniform Guidance.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Questioned Costs

No questioned costs were identified (\$0).

Context

Although technically not in compliance with the Uniform Guidance standards because CFDA and FAIN Numbers were not included/identified in the Subrecipient Agreements, the City did communicate and included other required Federal program information in each of the Subrecipient Agreements, such as the Federal Agency and the grant program name.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City update its Subrecipient Agreements to include the CFDA Number and FAIN and review its agreements to ensure continued compliance with the Uniform Guidance.

Management's Response and Corrective Action

We agree with the finding and have made the recommended correction. The HOME Policies and Procedures have been revised to include a funding agreement template. The template will include the CFDA and FAIN numbers.

Finding 2018-008 – Subrecipient Monitoring

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-17-MC-06-0527

Federal Award Year: 2017

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

According to *Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities*, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- Reviewing financial and performance reports required by the pass-through entity
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means
- Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by management's decision (per Section 200.521)

Condition

As part of our audit testing, we obtained the HOME Rental Project Inspection Schedule. When we made a sample selection, we noted the inspection that was scheduled in program year 2016 was not performed until May 2018. Upon request for reports on inspections scheduled for program year 2017, we noted that the City has not performed the inspections and are behind schedule.

Cause of the Condition

The Housing and Career Services Department, which administers the HOME Program, has not performed inspections as per the HOME Rental Project Inspection Schedule, as required by the Uniform Guidance.

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Effect or Possible Effect

The Subrecipient Monitoring performed by the City did not meet the timely and appropriate action requirements as described in the Uniform Guidance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The City is behind in performing inspections according to the HOME Rental Project Inspection Schedule.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City perform inspections timely and maintain proper reports to ensure compliance with the Uniform Guidance.

Management's Response and Corrective Action

We agree with the finding and the HOME Rental Project Inspection Schedule has been updated to ensure timely compliance. As of this response date, all applicable HOME-funded multifamily rental housing projects were inspected in calendar year 2018 through a third-party consultant. During the period 2016-2017 the Housing Department was ramping up consultant capacity to conduct the inspections. Moving forward, all inspections will be performed on schedule with reports filed.

Finding 2018-009 – Procurement, Suspension, and Debarment Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Planning and Construction

Federal Award Numbers: HP21L-5064(020)

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Transportation

Pass-Through Entity: State of California Department of Transportation

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project, the City did not utilize the System for Awards Management (SAM) to verify that the contracting entity was not debarred or excluded from receiving federal funds before awarding the contract.

Cause of the Condition

In November 2016, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, which was conducted subsequently and proof of SAM clearance is attached to the vendor's profile in Tyler Munis. However, the subawards questioned in this finding were made prior to the amended policy, thus no SAM check was conducted at the time of the award.

CITY OF PASADENA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. This is an ongoing construction contract started in previous fiscal years, with no new construction contracts being awarded for the fiscal year ended June 30, 2018 for alternative testing. As such, we had no option but to test the same contract as in the prior year and report the same finding.

Repeat Finding

This is a repeat finding. Refer to Finding 2017-007 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management's Response and Corrective Action

As stated in the context, this is a repeat finding because the auditor reviewed the same contract for this compliance testing, which had been previously reported as a noncompliance finding in the prior year.

CITY OF PASADENA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION IV - FINANCIAL STATEMENT FINDINGS

Finding 2017-001: Capital Assets Reconciliation

Significant Deficiency

Condition

As a result of our audit procedures, it was noted that the City's capital assets processes are decentralized and that assets are not being reconciled regularly throughout the year. As a result, capital projects costs were being added to construction in process without sufficient review, leading to sufficient restatements in the current year to remove prior year costs from construction in process, which should have been previously expensed. Additionally, there is no formal process requiring departments to communicate disposals to finance, resulting in insufficient supporting documentation over disposals.

Cause

All costs relating to capital projects are being reviewed at the end of the project as opposed to regularly throughout the year.

Criteria

Only costs that are considered capitalizable should be capitalized, and they should be capitalized in the year they are incurred.

Effect of Condition

Net capital assets could be misstated due to costs being capitalized that should not be.

Recommendation

We recommend that the City review costs relating to CIP projects more closely each year to avoid having to restate costs that were incorrectly capitalized initially. We also recommended the City create a formal process requiring departments to communicate disposals to finance, to ensure they are recorded timely and properly.

Management's Response and Corrective Action

The City agrees with this finding. Finance is reinforcing existing procedures to increase meetings with individual department project managers to twice a year to review their projects and help answer any questions that they have in regards to what expenses are qualified to be capitalized and which expenses should not. We will enhance existing asset disposal form to more formalize the disposal process, along with a reason for the disposal and the method of disposal, which will be authorized by an appropriate person from the department.

Status of Prior Period Finding

This finding is considered to be resolved.

Finding 2017-002: Cash Reconciling Items

Significant Deficiency

Condition

During our audit procedures, we noted that the City lacks policy's requiring departments to finalize cash batches and investigate issues in a timely manner. As a result, the City's bank reconciliations contain multiple reconciling items, some of which are close to a year old.

Cause

The bank reconciliations contain a large number of reconciling items, with a number of them being old items that need to be analyzed and corrected in the system.

Criteria

The City should be clearing out reconciling items from the bank reconciliation on a timely basis in order to identify potential errors within the system and ensure their cash balance is correct.

CITY OF PASADENA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Effect of Condition

The old items on the bank reconciliation could represent errors or items that are not reconciling items, which could misstate the cash balances.

Recommendation

We recommend that the City implement policies requiring all departments to close cash batches timely and correct any issues.

Management's Response and Corrective Action

The City agrees with this finding. The City will modify its policy for cash handling to require departments to submit complete, timely, and accurate batches. The policy will also include the requirement that all issues be investigated and resolved within five working days.

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-003 in the Schedule of Findings and Questioned Costs.

Finding 2017-003: Housing Successor Excess Surplus

Noncompliance

Condition

Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program." We noted that the City has had an excess surplus since 2014 and has not yet encumbered or transferred the funds.

Cause

The City's housing successor has an excess surplus that dates back to 2014 and has not yet encumbered or transferred the funds.

Criteria

Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program."

Effect of Condition

The City is potentially out of compliance with the Health and Safety Code.

Recommendation

We recommend that the City encumber these funds for allowable housing successor activities.

CITY OF PASADENA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Management's Response and Corrective Action

The Excess/Surplus amount required to be encumbered by 6/30/17 was \$644,915. Of this total, \$451,440 was expensed and encumbered for eligible activities. The balance, \$193,475, is required to be expended on projects serving Extremely Low Income (30% Area Median Income) households. Such projects include permanent supportive housing of which there were none available to commit the funds. On 12/18/17, the City submitted a request to the State to transfer the remaining balance and add it to the \$929,745 FY 2018 Excess/Surplus encumbrance obligation. City staff plans to bring recommendations to City Council to encumber the Housing Successor Excess/Surplus obligation by the end of FY 2018.

Status of Prior Period Finding

This finding is considered to be resolved.

CITY OF PASADENA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-004 – Reporting

Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grants/Entitlement Grants

Federal Award Number: B-16-MC-06-0525

Federal Award Year: 2016

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

The grant award agreement stipulates that the grantee shall comply with the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. The City is required under FFATA to report subawards greater than or equal to \$25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made, and annually thereafter.

Condition

As part of our audit testing, we obtained and inspected the FFATA report filed for the program year and determined that City did not prepare FFATA reports in a timely manner for the fiscal year ended June 30, 2017. All subrecipient awards were made between July 2016 and September 2016, but the FFATA report was filed in May 2017.

Cause of the Condition

For fiscal year 2015-2016, the City was not aware that the FFATA reporting requirements were applicable, resulting from inadequate internal controls relating to identification of reporting requirement for the grant program. After the release of the Single Audit Report for that fiscal year, the City filed the FFATA report for fiscal year 2016-2017; however, due to timing, the City was not able to file the report by the required reporting deadline.

Effect or Possible Effect

The City did not comply with the reporting requirements of FFATA or the grant agreement.

Questioned Costs

No questioned costs were identified (\$0).

Context

The subrecipient agreements greater than \$25,000 were signed and implemented prior to the issuance of the Single Audit Report for the fiscal year ended June 30, 2016, when this condition was first reported. As such, the City did not have time to implement the appropriate changes to ensure compliance for the fiscal year ended June 30, 2017 but did implement them starting in May 2017.

Repeat Finding

This is a repeat finding. Refer to Finding 2016-004 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City continue to implement procedures and controls to identify required reports and reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

CITY OF PASADENA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Management Response

The recommended corrective action was implemented. The FFATA reports for all subrecipients contracted for the fiscal year 2016-17 were completed and submitted in May 2017, subsequent to the completion of the 2015-16 Single Audit.

Status of Prior Period Finding

This finding is considered to be resolved. The corrective action was taken as indicated in the 2016-17 Management Response and Corrective Action.

Finding 2017-005 – Subrecipient Monitoring

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.267

Program Title: Continuum of Care Program

Federal Award Number: CA0655L9D071508, CA0658L9D071609, CA0658L9D071508, CA1447L9D071500, CA1259L9D071401, CA1259L9D071502, CA1363L9D071400, CA1363L9D071501

Federal Award Year: 2016

Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement

According to *Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities*, all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and include the following information at the time of the subaward and if any of these data elements change, include the changes in a subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. The required information includes:

- Subrecipient name
- Subrecipient's unique entity identifier
- Federal Award Identification Number (FAIN)
- Federal award date of award to the recipient by the Federal agency
- Subaward Period of Performance start and end date
- Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient
- Total amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation
- Total amount of the Federal award committed to the subrecipient by the pass-through entity
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official at the pass-through entity
- CFDA number and name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
- Identification of whether the award is R&D; and
- Indirect cost rate for the Federal award (including if the de minimis rate is charged per Section 200.414)

Condition

As part of our audit testing, we examined the Subrecipient files and agreements for four (4) subawards made to not-for-profit entities that receive Continuum of Care program funds from the City. We noted that the Subrecipient Agreements did not include CFDA Numbers, as required by the Uniform Guidance; thus, the information was not provided to the Subrecipients by the City.

CITY OF PASADENA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cause of the Condition

The Housing and Career Services Department, which administers the Continuum of Care Program, has not updated its Subrecipient Agreement Template to include the CFDA Numbers, as required by the Uniform Guidance.

Effect or Possible Effect

The Subrecipient Agreements made by the City did not meet the required information standards as described in the Uniform Guidance.

Questioned Costs

No questioned costs were identified (\$0).

Context

Although technically not in compliance with the Uniform Guidance standards because CFDA and FAIN Numbers were not included/identified in the Subrecipient Agreements, the City did communicate and included other required Federal program information in each of the Subrecipient Agreements, such as the Federal Agency and the grant program name.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

Recommendation

We recommend that the City update its Subrecipient Agreements to include the CFDA Number and review its agreements to ensure continued compliance with the Uniform Guidance.

Management Response

The management concurs with the finding. The subaward agreements are being modified to comply with the Uniform Guidance. The City is in the process of updating the subaward agreements to include the required grant information.

Status of Prior Period Finding

This finding is considered to be resolved. The corrective action was taken as indicated in the 2016-17 Management Response and Corrective Action.

Finding 2017-006 – Procurement, Suspension, and Debarment

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 17.258, 17.278

Program Title: WIA/WIOA Adult & Dislocated Worker Program

Federal Award Number: K698358, K7102027

Federal Award Year: 2016

Name of Federal Agency: U.S. Department of Labor

Pass-Through Entity: State of California Employment Development Department (EDD)

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

CITY OF PASADENA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entity were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition

In November 2016, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, which was conducted subsequently and proof of SAM clearance is attached to the vendor's profile in Tyler Munis. However, the subawards questioned in this finding were made prior to the amended policy, thus no SAM check was conducted at the time of the award.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the subrecipient files for the City's two (2) of two (2) subawards and noted that one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit and will affect future years' subrecipient RFPs.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response

Although the City could not locate the certification for the audit, another SAM check was conducted in December 2016. The City will ensure it maintains all of the required documents, including the certification and SAM checks, in the Tyler Munis ERP system.

Status of Prior Period Finding

This finding is considered to be resolved. The corrective action was taken as indicated in the 2016-17 Management Response and Corrective Action.

Finding 2017-007 – Procurement, Suspension, and Debarment

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 20.205

Program Title: Highway Planning and Construction

Federal Award Numbers: HP21L-5064(020)

Federal Award Year: 2014

Name of Federal Agency: U.S. Department of Transportation

Pass-Through Entity: State of California Department of Transportation

CITY OF PASADENA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Criteria or Specific Requirement

Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition

As part of our audit procedures, we performed tests to verify that the City performed tests of its contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project, the City did not utilize the System for Awards Management (SAM) to verify that the contracting entity was not debarred or excluded from receiving federal funds before awarding the contract.

Cause of the Condition

In November 2016, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, which was conducted subsequently and proof of SAM clearance is attached to the vendor's profile in Tyler Munis. However, the subawards questioned in this finding were made prior to the amended policy, thus no SAM check was conducted at the time of the award.

Effect or Possible Effect

For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs

No questioned costs were identified (\$0).

Context

We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. This is an ongoing construction contract started in previous fiscal years, with no new construction contracts being awarded for the fiscal year ended June 30, 2017 for alternative testing. As such, we had no option but to test the same contract as in the prior year and report the same finding.

Repeat Finding

This is a repeat finding. Refer to Finding 2016-010 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response

As stated in the Context, this is a repeat finding because the auditor reviewed the same contract for this compliance testing, which had already been reported as a non-compliance finding in the 2015-16 (2016-010).

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-009 in the Schedule of Findings and Questioned Costs.