

CITY OF PASADENA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2019

**CITY OF PASADENA**

**JUNE 30, 2019**

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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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 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.

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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*.

### **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, Solt & Lughard, LLP*

Brea, California  
December 18, 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, 2019. 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, 2019.



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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding 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 item 2019-001, that we consider to be a significant deficiency.

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 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, Soll & Lughard, LLP*

Brea, California

January 20, 2020 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 18, 2019)

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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
<b>SNAP Cluster</b>					
U.S. Department of Agriculture 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	\$ 274,645	\$ -
Total U.S. Department of Agriculture Programs in Cluster				274,645	-
<b>Total SNAP Cluster</b>				<b>274,645</b>	<b>-</b>
<b>CDBG - Entitlement Grants Cluster</b>					
U.S. Department of Housing and Urban Development Programs Direct Programs Community Development Block Grants/Entitlement Grants	14.218	N/A	N/A	2,450,571	302,132
Total U.S. Department of Housing and Urban Development Programs in Cluster				2,450,571	302,132
<b>Total CDBG - Entitlement Grants Cluster</b>				<b>2,450,571</b>	<b>302,132</b>
<b>WIOA Cluster</b>					
U.S. Department of Labor Passed through the State of California WIOA Cluster					
WIA/WIOA Adult Program	17.258	61-421-5531	K9110005	535,662	172,323
	17.258	61-421-5531	K7102027	46,236	-
	17.258	61-421-5531	K7102027	243,262	37,145
	17.258	61-421-5531	K7102027	150	-
Subtotal - CFDA 17.258				825,310	209,468
WIA/WIOA Youth Activities	17.259	61-421-5531	K8106173, K9110005	625,667	2,855
Subtotal - CFDA 17.259				625,667	2,855
WIA/WIOA Dislocated Worker Formula Grants	17.278	61-421-5531	K9110005	461,987	108,977
	17.278	61-421-5531	K9110005	43,796	-
	17.278	61-421-5531	K8106173, K9110005	209,113	-
	17.278	61-421-5531	K7102027	627,000	133,782
Subtotal - CFDA 17.278				1,341,896	242,759
Total U.S. Department of Labor Programs in Cluster				2,792,873	455,082
<b>Total WIOA Cluster</b>				<b>2,792,873</b>	<b>455,082</b>
<b>Highway Planning and Construction Cluster</b>					
U.S. Department of Transportation Passed through the State of California Department of Transportation: Highway Planning and Construction	20.205	13-525-3776	BHLS-5064 (078)	145,417	-
	20.205	13-525-3776	ATP-CML-5064(089)	173,109	-
	20.205	13-525-3776	CML-5064(083)	894,319	-
	20.205	13-525-3776	HSISPL5064-(084)	37,049	-
Total U.S. Department of Transportation Programs in Cluster				1,249,894	-
<b>Total Highway Planning and Construction Cluster</b>				<b>1,249,894</b>	<b>-</b>
<b>Transit Services Programs Cluster</b>					
U.S. Department of Transportation Passed through the State of California Department of Transportation: Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	13-525-3776	CA-16X066	127,813	-
Job Access and Reverse Commute Program	20.516	13-525-3776	CA-37-X100	83,108	-
	20.516	13-525-3776	CA-37-X171	335,015	-
	20.516	13-525-3776	CA-37-X100	276,944	-
Total U.S. Department of Transportation Programs in Cluster				822,880	-
<b>Total Transit Services Programs Cluster</b>				<b>822,880</b>	<b>-</b>
<b>Highway Safety Cluster</b>					
U.S. Department of Transportation Passed through the State of California Department of Transportation: State and Community Highway Safety	20.600	13-525-3776	PS18020	62,915	-
	20.600	13-525-3776	PT18111	90,825	-
	20.600	13-525-3776	PS19015	22,273	-
	20.600	13-525-3776	PT19087	138,110	-
Total U.S. Department of Transportation Programs in Cluster				314,123	-
<b>Total Highway Safety Cluster</b>				<b>314,123</b>	<b>-</b>
<b>TANF Cluster</b>					
U.S. Department of Health and Human Services Passed through the County of Los Angeles: Temporary Assistance for Needy Families	93.558	62-488-2309	IA0614	71,000	-
Passed through the City of Inglewood: Temporary Assistance for Needy Families	93.558	02-204-9122	16WXXX22564	152,506	-
Total U.S. Department of Health and Human Services Programs in Cluster				223,506	-
<b>Total TANF Cluster</b>				<b>223,506</b>	<b>-</b>

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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
<b>Medicaid Cluster</b>					
U.S. Department of Health and Human Services Passed through the State of California Department of Public Health: Medical Assistance Program	93.778	79-915-0615	15-10146	191,507	-
Total U.S. Department of Health and Human Services Programs in Cluster				191,507	-
<b>Total Medicaid Cluster</b>				<b>191,507</b>	<b>-</b>
<b>Housing Voucher Cluster</b>					
U.S. Department of Housing and Urban Development Direct Program Section 8 Housing Choice Vouchers	14.871	N/A	N/A	14,470,606	-
Total U.S. Department of Health and Human Services Programs in Cluster				14,470,606	-
<b>Total Housing Voucher Cluster</b>				<b>14,470,606</b>	<b>-</b>
<b>U.S. Department of Agriculture</b>					
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	1,192,605	-
<b>Total U.S. Department of Agriculture</b>				<b>1,192,605</b>	<b>-</b>
<b>U.S. Department of Housing and Urban Development</b>					
Direct Programs:					
Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	N/A	449,665	-
Emergency Solutions Grant Program	14.231	N/A	N/A	102,267	91,175
Home Investment Partnerships Program	14.239	N/A	N/A	1,663,120	-
Continuum of Care Program	14.267	N/A	N/A	2,715,099	1,587,093
Passed through the City of Los Angeles: Housing Opportunities for Persons with AIDS	14.241	06-992-8349	C-126938	51,592	-
<b>Total U.S. Department of Housing and Urban Development</b>				<b>4,981,743</b>	<b>1,678,268</b>
<b>U.S. Department of the Interior</b>					
Direct Programs:					
Title XVI Water Reclamation and Reuse	15.504	N/A	N/A	(4,271)	-
Water Conservation Field Services	15.530	N/A	N/A	13,358	-
<b>Total U.S. Department of the interior</b>				<b>9,087</b>	<b>-</b>
<b>U.S. Department of Justice</b>					
Direct Programs:					
Equitable Sharing Program	16.922	N/A	N/A	248,854	-
<b>Total U.S. Department of Justice</b>				<b>248,854</b>	<b>-</b>
<b>U.S. Department of Transportation</b>					
Passed through the State of California Department of Transportation: State and Community Highway Safety	20.608	13-525-3776	PT18111	64,811	-
	20.608	13-525-3776	PT19087	95,014	-
	20.608	13-525-3776	PT19015	6,160	-
<b>Total U.S. Department of Transportation</b>				<b>165,985</b>	<b>-</b>

CITY OF PASADENA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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
<b>U.S. Department of Health and Human Services</b>					
Direct Programs:					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	N/A	N/A	47,927	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	N/A	357,600	-
Racial and Ethnic Approaches to Community Health Special Projects of National Significance	93.304	N/A	N/A	64,099	-
	93.928	N/A	N/A	229,271	-
Passed through the County of Los Angeles:					
Public Health Emergency Preparedness	93.069	62-488-2309	PH-003349	237,651	-
HIV Prevention Activities Health Department Based	93.940	62-488-2309	PH-00809-2	66,054	-
Alcohol and Drug Abuse and Mental Health Services Block Grant	93.992	62-488-2309	H702536	300,336	-
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	30,544	-
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	73,870	-
Immunization Cooperative Agreements	93.268	79-915-0615	13-20337	61,568	-
Maternal and Child Health Services Block Grant to the States	93.994	79-915-0615	201061	209,579	-
<b>Total U.S. Department of Health and Human Services</b>				<b>1,678,499</b>	<b>-</b>
<b>U.S. Department of Homeland Security</b>					
Passed through the City of Los Angeles:					
Homeland Security Grant Program	97.067	06-992-8349	EMW-2016-SS-00102	203,533	-
Homeland Security Grant Program	97.067	06-992-8349	EMW-2017-SS-00083	36,405	-
Passed through the County of Los Angeles:					
Homeland Security Grant Program	97.067	62-488-2309	EMW-2016-SS-00102	209,364	-
Homeland Security Grant Program	97.067	62-488-2309	EMW-2017-SS-00083	12,093	-
<b>Total U.S. Department of Homeland Security</b>				<b>461,395</b>	<b>-</b>
<b>Total Expenditures of Federal Awards</b>				<b>31,528,773</b>	<b>\$ 2,435,482</b>
<b>Federal Loan Balances with a Continuing Compliance Requirement</b>					
Community Development Block Grant/Entitlement Grants Loan (beginning balance)	14.218			22,900,569	
HOME - Investment Partnership Program (beginning balance)	14.239			10,948,788	
Section 8 Low Income Housing - Voucher Program (beginning balance)	14.871			50,000	
<b>Total Federal Loan Balances with a Continuing Compliance Requirement</b>				<b>33,899,357</b>	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS</b>				<b>\$ 65,428,130</b>	

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, 2019

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**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. On March 28, 2019 the loan was refinanced at \$5,100,000 to lock in permanent fixed interest rates. Principal is payable in annual installments of \$300,000 commencing on August 1, 2019 and ending August 1, 2035. Interest rate is fixed between 2.54%-3.635%. Interest payment is paid semi-annually from the effective date of March 28, 2019. The balance outstanding as of June 30, 2019, is \$5,100,000.

**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, 2019, consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
	Community Development Block Grants/Entitlement	
14.218	Grants	\$ 23,672,617
14.239	Home Investment Partnerships Program	12,685,172
14.871	Section 8 Housing Choice Vouchers	50,000
		<u>\$ 36,407,789</u>

CITY OF PASADENA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Material weaknesses identified?  yes  no
- Significant deficiencies 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 200.516, *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>
14.218	CDBG-Entitlement Grants Cluster
14.239	Home Investment Partnerships Program
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B program \$1,963,941

Auditee qualified as low-risk auditee under Title 2 U.S. Code of Federal Regulations (CFR) Part 200.520?  yes  no

**CITY OF PASADENA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

There were no financial statement findings for the fiscal year ended June 30, 2019.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2019-001 – 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 Agreement 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.

## CITY OF PASADENA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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#### Cause of the Condition

The City of Pasadena Department of Housing (the Department) did add the CFDA number and FAIN number to the subrecipient agreement template. However, the Department had not updated its Subrecipient Agreement Template or the current agreement with the subrecipient to include the new standards as required by the Uniform Guidance.

#### Effect or Possible Effect

The Subrecipient Agreements made by the Department 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 Department 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 repeat finding from the fiscal year ended June 30, 2018. See prior year finding 2018-007.

#### Recommendation

We recommend that the Department update its Subrecipient Agreements and template to include all new standards to ensure continued compliance with the Uniform Guidance.

#### Management's Response and Corrective Action

We agree with the finding. The existing agreement expired at the end of June 2019 and was not updated to meet Uniform Guidance requirements. The subrecipient agreement template has been updated and all new agreements with any subrecipient and the template will contain all necessary requirements in accordance with 2 CFR 200.331.

**CITY OF PASADENA**

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

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**SECTION IV - 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.

Status of Prior Year Finding

This finding is considered resolved.

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

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#### 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.

#### Status of Prior Year Finding

This finding is considered resolved.

### **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.

#### Status of Prior Year Finding

This finding is considered resolved.

**CITY OF PASADENA**

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

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**SECTION V - 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.

Status of Prior Year Finding

This finding is considered resolved.

## CITY OF PASADENA

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

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#### **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.

#### Status of Prior Year Finding

This finding is considered resolved.

## CITY OF PASADENA

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

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#### **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.

##### Status of Prior Year Finding

This finding is considered resolved.

## CITY OF PASADENA

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

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#### **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 City of Pasadena has not updated its Subrecipient Agreement Template to include the CFDA Number, FAIN, and new standards 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 PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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#### 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. The existing agreement expires at the end of June 2019 and was not updated to meet uniform guidance requirements. The new agreement with the subrecipient will contain only necessary requirements in accordance with 2 CFR 200.331.

#### Status of Prior Year Finding

This is a repeat finding in the current year. See finding 2019-001.

#### **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.

## CITY OF PASADENA

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

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#### 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.

#### 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.

#### Status of Prior Year Finding

This finding is considered resolved.

### **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.

## CITY OF PASADENA

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

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#### 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, 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.

#### Status of Prior Year Finding

This finding is considered resolved.