

# Agenda Report

January 27, 2020

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

**THROUGH:** Finance/Audit Committee

**FROM:** Director of Finance

**SUBJECT: FISCAL YEAR JUNE 30, 2019 ANNUAL FINANCIAL REPORTS**

**RECOMMENDATION:**

It is recommended that the following reports for the year ended June 30, 2019 be reviewed, discussed, and filed by the City Council and/or the Successor Agency to Pasadena Community Development Commission.

- A. Comprehensive Annual Financial Report\*
- B. Single Audit Report
- C. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (This replaces what was called the "Management Letter.")
- D. Pasadena Center Operating Company Basic Financial Statements
- E. Rose Bowl Operating Company Basic Financial Statements
- F. Pasadena Community Access Corporation Basic Financial Statements
- G. Pasadena Fire and Police Retirement System Independent Auditor's Report and Basic Financial Statements with Required Supplemental Information
- H. Air Quality Improvement Fund Financial Statements and Compliance Report
- I. Housing Successor Basic Financial Statements and Compliance Reports
- J. Foothill Workforce Development Board Basic Financial Statements and Compliance Report
- K. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- L. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
- M. The Auditor's Communications with the City's Finance/Audit Committee

\* Report previously delivered.

## **EXECUTIVE SUMMARY:**

This action is to receive and file the City's eight annual financial statements and five compliance-related reports for the fiscal year ended June 30, 2019. All financial statements received an unmodified (or clean) opinion. The financial statement audit resulted in no findings. The Single Audit Report reiterates that there were no financial statement findings and reports one grant related finding. This finding related to missing information on a subrecipient contract that has now expired. This finding has been addressed with a change to the contract template that will be used for future contracts. A presentation will be made by the City's external auditors, Lance, Soll & Lunghard, LLP at the January 27, 2020 Finance/Audit Committee.

## **BACKGROUND:**

This year's audit was the fifth annual audit performed by Lance, Soll & Lunghard, LLP, who was awarded a one-year contract extension to perform the City's audits on March 25, 2019. On March 25, 2019, City Council directed that the fifth year optional contract extension require that sampling be performed with samples from all funds. As this is the final year of Lance, Soll & Lunghard's contract, the City will be issuing a Request for Proposals for audit services.

All eight financial statements received unmodified opinions from the outside auditors. This is the highest or cleanest attestation report given by independent auditors and includes the phrase "the financial statements referred to above present fairly, in all material respects, the financial position..." The five remaining reports present compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

## **Comprehensive Annual Financial Report (CAFR) (Attachment A)**

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted annually and a report issued thereon. In the attached audited CAFR for the year ending June 30, 2019, the City received an unmodified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles.

## **Single Audit Reports on Federal Awards (Attachment B)**

The Single Audit Act of 1984, Single Audit Act Amendments of 1996, and more recent Uniform Guidance establish uniform audit requirements for local governments expending federal awards greater than \$750,000 a year. The audit is on an "entity-wide" basis and imposes additional requirements in relation to testing of, and reporting

on, internal control and compliance with laws and regulations related to grants and contracts applicable to the City's federally funded programs. The Single Audit Report contained only one current year finding, which was repeated from the previous year. The finding reported that a Home subrecipient contract did not contain the Catalog of Federal Domestic Assistance (CFDA) number or the Federal Award Identification Number (FAIN). The City has revised its contract template to include this information on a go forward basis. Since the contract in question expired on June 30, 2019, it was not amended. The Single Audit Report lists the status of all nine prior year findings. With the exception of the repeat finding, all others are reported as "This finding is considered resolved". To make this statement, the Auditors have verified that corrective actions have taken place.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (This replaces what was called the "Management Letter") (Attachment C)**

This report explains the auditors' audit of the City's financial reports in relation to their review of internal controls and has no findings. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have samples pulled from every fund, which is more than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control," "material weakness," and "significant deficiency" involving the internal control structure. This year's financial statement audit identified no material weaknesses and no significant deficiencies.

**Component Unit Financial Statements**

Financial statements for Pasadena Center Operating Company (Attachment D), Rose Bowl Operating Company (Attachment E), Pasadena Community Access Corporation (Attachment F), and Pasadena Fire and Police Retirement System (Attachment G) are included as they are component units of the City. Component units are legally separate entities in substance but are part of the government's operations. Each of the City's component units received an unmodified opinion.

### **Air Quality Improvement Fund Financial and Compliance Report (Attachment H)**

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of those collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD. The Air Quality Improvement Fund Financial and Compliance Report received an unmodified opinion.

### **Pasadena Housing Successor Basic Financial Statements, Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an audit of Financial Statements, Independent Auditors' Report on Compliance with Applicable Requirement and on Internal Control Over Compliance, and Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund (Attachment I)**

Since Fiscal Year 2016, the Pasadena Housing Successor fund has been presented as a major fund with the major governmental funds in the CAFR. This facilitates meeting the state's required reporting and auditing requirements for this fund. To meet the reporting requirements, the Housing Successor Financial Statements, the Independent Auditors' Report on Internal Control, Report on Compliance With Applicable Requirement and on Internal Control Over Compliance, and the Housing Successor Annual Report Regarding the Low and Moderate Income Housing Asset Fund were delivered to the Mayor and City Council members on December 31, 2019 and posted on the City's website. The Auditors' opined that the Housing Successor has complied in all material respects with the compliance requirements they must report on and they did not identify any noncompliance with the California Health and Safety Code requirements.

### **Foothill Workforce Development Board Basic Financial Statements and Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Attachment J)**

The City serves as the lead agency for this Joint Powers Authority. The Foothill Workforce Development Board Financial Statements received an unmodified opinion. The Auditors' also opined that the Foothill Workforce Development Board has complied in all material respects with the compliance requirements they must report on.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets (Attachment K)**

Section 1.5 of Article XIII B of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors perform an "Agreed-Upon Procedure" where they recalculate the Gann Limit. They determined that the current year calculation is correct and found no exceptions.

### **Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Attachment L)**

At the request of the City, the auditors performed certain procedures as enumerated in the report to verify the accuracy and timely posting of contributions to the deferred compensation program provided by Great West Retirement Services. The auditors noted that the amounts deposited did not match to the amounts withheld. The City has determined that this is solely a timing difference resulting from retirement and separation checks, which, due to the payroll cycle, are reported with the next or subsequent regular payroll. This is not considered a finding.

### **The Auditor's Communications with the City's Audit and Finance Committees (Attachment M)**

One auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires defined and documented communications between the auditors and the City Audit Committee/Finance Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and to further explain their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management. They point out whether management has corrected or passed on correcting all known misstatements. This year there were no uncorrected items.

### **COUNCIL POLICY CONSIDERATION:**

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

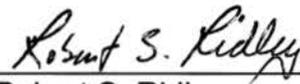
**FISCAL IMPACT:**

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

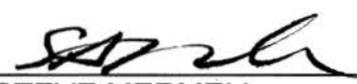
Respectfully submitted,

  
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MATTHEW E. HAWKESWORTH  
Director of Finance

Prepared by:

  
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Robert S. Ridley  
Controller

Approved by:

  
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STEVE MERMELL  
City Manager

Attachments: (13)

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