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In planning and performing our audit of the basic financial statements of the City of Pasadena for the year ended June 30, 2006, we considered its internal control structure and compliance controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure, nor render an opinion on compliance.

However, during our audit, we became aware of matters that represent opportunities for strengthening internal controls and operating efficiency. These matters do not represent noncompliance or material weaknesses in internal controls that are required to be reported under *Government Auditing Standards*.

(06-1) Verification of Authorized Signatures for Invoice Approval

The City of Pasadena maintains a book of authorized signers for invoice approval, organized by department and level of authorization in accounts payable. Updates to the book should occur throughout the year as departments make changes for authorized signers. The original documents are submitted and filed with the internal audit division, while copies are provided to accounts payable for their book. The book contains the printed name of the authorized individuals and an example of their signature. During our review of cash disbursement internal controls, we noted that an up to date book had not been maintained by accounts payable staff and was not being utilized to verify proper authorization. On an annual basis, the internal audit division requires all departments to submit new signature authorizations by division. Although, the book of authorized signatures that was maintained by the internal audit division was updated at year end the book that was maintained by accounts payable was not up to date during our testing. Therefore, based upon the testing performed, it appeared to the auditors that accounts payable had not been verifying signatures on invoices to the book of authorized signatures.

Recommendation

We recommend that the book of authorized signatures be properly maintained as updates are received from the departments so as to include all changes in personnel. In addition, we recommend that accounts payable personnel only process invoices that have been properly approved by comparing live signatures on invoices to the book of authorized signatures.



Managements Comments Regarding Corrective Action Planned

Management concurs with the auditors' recommendations. A master listing of signature authorizations will continue to be maintained by Internal Audit, a copy of which will be provided to Accounts Payable. A scanned image of the master listing will be accessible to all Accounts Payable staff. Accounts Payable staff will verify all signatures against this listing. Any invoices without authorized signatures will be returned unprocessed to the respective department. All signature authorization forms will be maintained in the Accounts Payable master listing and electronically archived to retain historical data for future auditing purposes.

(06-2) Construction in Progress

The City generates an expenditure report for all capital expenditures incurred during the year that were not completed at year end. These capital expenditures are recorded as additions to construction in progress. The Public Works Department reports to finance all projects that were finished at the end of the fiscal year. These reports are used to record deletions to construction in progress. The City does not maintain a detail listing that supports the ending balance of construction in progress at year end by project. Since the City does not have a detailed listing by project, the City cannot determine which projects are still recorded in construction in progress that may actually be completed projects.

Recommendation

We recommend that the City conduct a review of its construction in progress in order to support its balance outstanding at year end. We also recommend that additions and deletions to construction in progress be analyzed in order to ensure that only capitalizable projects are capitalized and that all completed construction in progress projects are removed.

Managements Comments Regarding Corrective Action Planned

Management concurs with the auditors' recommendation. Finance will collaborate with the Public Works Department to maintain detailed records that will facilitate accurate identification of projects to be deleted from construction in progress.



(06-3) Paseo Colorado Parking Garages Cash Receipts

Modern Parking Inc. performs parking garage management services for the Paseo Colorado garages. The three parking garages of the Paseo Colorado Development include the Marengo Avenue Garage, the Subterranean Paseo Colorado Garage, and the Los Robles Avenue Garage. These three parking facilities provide transient and monthly parking for patrons, employees, and residents. For the year ended June 30, 2006, the City's independent auditing firm performed an in-depth review of the internal controls associated with these operations. This review identified a number of areas where internal controls could be strengthened. Modern Parking Inc. generally concurs with the benefits and practicality of our recommendations as set forth below. Modern Parking Inc. should be requested by the City to implement these recommendations. Any recommendations deemed appropriate by the City that are not accepted by Modern Parking Inc. should be considered for inclusion in the contractual requirements of the parking garage operator during the renewal process for the parking contract.

During our review of cash receipts at the Paseo Colorado garages, we noted the following:

- a. Computerized parking receipts and manual parking receipts are only provided to customers upon request. The customer could pay a parking fee and the attendant could keep the money instead of recording the transaction in the cash register. Furthermore, the attendant could give the customer a manual receipt and still misappropriate the funds since the manual receipts are not prenumbered and are not reconciled to account for gaps in the sequence of receipt numbers.

Recommendation

We recommend that the attendants be required to give computerized parking receipts to all customers. The manual parking receipts should only be used when the cash register is malfunctioning. The manual receipts should be prenumbered and someone independent of the cash receipting process should account for the prenumbered sequence of the manual cash receipts.

Managements Comments Regarding Corrective Action Planned

Management concurs with the recommendation. Modern Parking Inc. has already requested Sentry Control Systems to re-program all cashier registers to immediately begin issuing automatic electronic receipts for all transactions that have a balance. Once this feature is available all manual receipts will be eliminated from the cashier booths. The additional cost of paper is estimated at about \$17,000 per year, which was not part of the adopted budget and will be added in the future budgets.



In addition, since the audit, the City has installed a complete closed circuit television system in every booth of the garages with 24/7 digital recording capabilities. Every transaction is recorded and visible live via displays in the facility manager's office as well as the City's parking Office.

- b. At the end of each attendant's shift, the money collected is put in a sealed envelope which is placed in a safe. A *Safe Drop Report and Cash Bank Log* is maintained to keep track of each envelope placed in the safe. The log is signed by two individuals. The *Safe Drop Report and Cash Bank Log* is used to prepare the Manager's Daily Report, which summarizes the daily ticket revenue for each attendant from the *Cashier Shift Reports*. Six individuals have access to the combination to the safe.

#### Recommendation

We recommend that the attendant's place all cash receipts in a pre-numbered sealable bag at the end of their shift. An individual independent of the cash receipts process should track the sequence of the bags to ensure that all cash receipts are accounted for and are reported on the *Manager's Daily Report*. In addition, access to the safe should be limited to a minimum number of individuals.

#### Managements Comments Regarding Corrective Action Planned

Management concurs and has requested that Atlas Safe install an additional key lock to be used in conjunction with the safe combination. This will require the supervisor on duty and the office clerk to be both present to open the safe. Currently, dual custody of keys is a part of our procedures. City will consider the recommendation of adding pre-numbered deposit envelopes as part of our policy; however we need to find out the associated cost since this was not part of the approved budget.

- c. Checks that are collected in the parking office are not restrictively endorsed until the bank deposit is prepared.

#### Recommendation

We recommend that checks be restrictively endorsed immediately upon receipt to reduce the risk of misappropriation.

#### Managements Comments Regarding Corrective Action Planned

Management agrees with recommendation and has implemented the procedures above as noted.



- d. We noted that all clerks in the parking office that accept cash receipts can also make adjustments to customer accounts. It would be possible for an employee to apply the payment to a customer's account without actually depositing the funds into the City's bank account.

Recommendation

We recommend that individuals that have access to cash receipts be denied access to adjusting customer accounts.

Managements Comments Regarding Corrective Action Planned

We recognized this issue in mid September 2006. We have adjusted the policy and procedure. Since September 15<sup>th</sup>, only the facility parking manager and the office manager have access to adjust customers' accounts. In addition, the newly installed Integrapark system provides detailed reports of all adjustments, which we run to verify accuracy.

- e. We noted that the City of Pasadena receives a *Daily Deposits Report*, which is an excel based report that summarizes the cash receipts that were collected for each parking garage. At the end of each month the City also receives a *Garage Summary Report*, which is an excel based report that summarizes the parking revenue for the month. This report is used to record the parking revenue by garage and to reconcile the daily deposits per the *Daily Deposits Report* and the bank statement. The City does not receive any system generated reports from the parking garage's database. The parking garage is operated by a program called Skidata. Skidata tracks the time of entry and exit for each parking ticket, validations, and is integrated with the cashiering system.

Recommendation

We recommend that the City be provided a system generated report from Skidata at least monthly in order to compare the cash receipts reported on the monthly *Garage Summary Report* to actual parking activity per Skidata. This reconciliation will ensure that all cash receipts recorded in Skidata have been deposited.

Managements Comments Regarding Corrective Action Planned

The City is currently working with Sentry regarding the Skidata reporting. One of the problems with the system is that it tends to over report activity between the Pay on Foot stations and the exit Columns providing less than accurate report documents. Management will include transaction reports from our cashier stations, and Pay on Foot stations on timed intervals and tie the collections to the Skidata generated reports. Management will continue to work with Sentry Control



Systems on advancing the overall global reporting from Skidata in order to satisfy this requirement.

(06-4) Deposits Payable

During our review of deposits payable we noted that the Finance Department is not always provided with detailed schedules by depositor that support the outstanding balances. Without a detailed listing by depositor, the City cannot determine who the funds are owed to. The *Miscellaneous Developer Deposits* account and the *Construction & Demolition Security Deposits* account, which amounted \$258,441 and \$2,931,962, respectively were not supported by a detailed listing by depositor. We also noted that certain amounts that have been recorded as deposits would be more appropriately recorded as revenue. For example, \$220,654 in nonrefundable fees had been collected for street planting projects and \$363,829 in donations had been contributed to the Library. Since these amounts are nonrefundable it would be more appropriate to account for them as revenue rather than deposits.

Recommendation

We recommend that the Finance Department be provided with detailed schedules by depositors that support the balances outstanding at year-end. The best source for preparation of this detailed listing would be the documentation that is examined by the receiving Department when it approves a depositor's request for refund. Finance should then reconcile this detailed supporting schedule to the general ledger. We also recommend that amounts that are collected that are not required to be repaid be accounted for as revenue rather than as deposits.

Managements Comments Regarding Corrective Action Planned

Management concurs with the auditors' recommendation and will require all departments with deposit accounts to maintain proper documentation to substantiate the balances.

STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS  
AND SINGLE AUDIT FINDINGS

During the audit for the year ended June 30, 2006, we determined the status of the management letter comments and single audit findings previously communicated to City Council. The original comments as well as the status of those comments are included in this report.



(05-1) Grant Reimbursement Requests

During our review of outstanding grant receivables at June 30, 2005, we noticed that the City has a Federal Emergency Management Agency (FEMA) grant of approximately \$600,000 related to the Northridge Earthquake. In the current fiscal year, the City incurred approximately \$700,000 of partially reimbursable expenditures during the year that are eligible for billing. The department responsible for billing this federal grant has not prepared any reimbursement request during the year.

Resolution

We saw considerable improvement in the timeliness of the preparation of grant reimbursement requests during the year ended June 30, 2006. A request for reimbursement was made on 5/16/06, which pertained to the construction work for Phase 1 of the project. At June 30, 2006 there were no significant unclaimed reimbursement requests relating to the FEMA grant.

(05-2) Federal Grant Equipment Records

The COPS grant was selected as a major program for single audit testing in the fiscal year ended June 30, 2005. During our review of COPS grant compliance, we noted that the department responsible for the grant did not have a detailed record of equipment purchased with COPS funds. The federal guidelines require that grant recipients maintain equipment records for all equipment purchases charged directly to the grant having a useful life of more than one year and having an acquisition cost of \$5,000 or more.

Status

Management has compiled a list of assets purchased with these funds. This grant was one of the funding sources used for the construction of the firing range. Management is currently working with the contractor to determine the value of each asset and what percentage was funded by the particular grant.

(04-1) Villa Park Community Center Receipts

During our review of cash receipts at the Villa Park Community Center for the fiscal year ended June 30, 2004, we noted the pre-numbered sequence of cash receipts was never verified to ensure that all receipts are accounted for. The reason why this had not been done in the past is because there were five receipt books in circulation, which had never been tracked or accounted for.

During our follow up review of the Villa Park Community Center for the fiscal year ended June 30, 2005, we noted that the recommendation had not been fully implemented.



Pre-numbered receipt books had been ordered. However, there were some gaps in sequence between the pre-numbered receipt books. In addition, the pre-numbered receipt books that had been assigned had not been tracked. However, this is an important control in ensuring that an employee did not issue a receipt to a customer and then take the cash instead of including it in the deposit.

#### Resolution

During our follow up review, we noted that a revised set of receipt forms was ordered for each facility. The revised set of receipt forms indicate the facility name and have been assigned a distinct number series for each facility. An individual at the Villa Park Community Center tracks the books that have been assigned and ensures that all voided receipts are now returned with the book and are reconciled to assure no missing or unaccounted for receipts.

#### (04-2) Controls over Cash Receipts

The Finance Department maintains accounts receivable records for three accounts receivable cycles: paramedics billing, miscellaneous accounts receivable, and miscellaneous utility billing. During our review of cash receipts for the fiscal year ended June 30, 2004, we noted that the individuals responsible for maintaining Finance Department accounts receivable records also have physical access to customer payments. These individuals could conceal their theft of customer payments by making entries to the accounts receivable records to record payments never actually deposited or by posting adjustments to reduce the customer's account balance. These actions would not be detected by other City employees in the performance of their duties.

#### Resolution

During our follow up review, we noted that all customer checks are now initially received by individuals that are not involved in maintaining the accounts receivable records. Those individuals maintain a log of checks received prior to distribution of the checks to the accounts receivable personnel. The log is then reconciled by those individuals, who do not have the ability to adjust the subsidiary accounts receivable, to the actual deposits made for that day and the total customer postings for that day.

This report is intended solely for the information and use of the City Council and management of the City of Pasadena and is not intended to be and should not be used by anyone other than these specified parties.

*Maya Hoffman Melara P.C.*