



**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm  
**Conrad Government Services Division**  
2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

City Council

**City of Pasadena**  
Pasadena, California

In planning and performing our audit of the financial statements of the City of Pasadena (City) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. Matters conforming to this definition are set forth below.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.**

The auditing standards have changed beginning with the fiscal year ending June 30, 2007. Statement on Auditing Standards (SAS) No. 112 which took effect for the fiscal year ending June 30, 2007 requires that all matters identified by the audit process be reported to the governing board, even those that are not practical for correction (except for those matters that are clearly inconsequential). Under this new scope of audit reporting, our recommendations resulting from our audit process are as follows:

(07-1) Internal Controls over Purchase Cards

We reviewed the City's corporate purchasing card activity for a thirty day period ending March 15, 2007. We obtained credit card statements and supporting documentation for the ten cards with the highest dollar value of transactions.

12/17/2007  
Item 5.B.1 & 8.B.  
Attachment D

During our review, we noted the following:

- a. Five cardholder statements had not been reviewed by an individual other than the cardholder.

Recommendation

We recommend that each cardholder statement be reviewed by another individual in that department who can verify whether the goods or services were actually received and whether those expenses related to the City department's business purpose.

Management's Comments Regarding Corrective Action Planned

The City's policy regarding use of Purchase Cards does not require separate review of cardholder statements. Rather monthly management reports on card usage have been available to all departments. In consultation with our outside auditors, the addition of a documented review of the management reports by a responsible and knowledgeable reviewer in each Department would address this item and item (07-1) c. Additionally, staff of the Purchasing Division performs random, periodic review of card usage.

- b. In our sample, one receipt was missing and a Purchasing Card Lost Receipt Form was not filled out by the cardholder until an inquiry was made. In addition, one cardholder statement had not been turned in to the Department of Finance.

Recommendation

The City's Purchasing Policy states that "statement reconciliation is mandatory...upon reconciliation, all statements must be received in the Department of Finance, Budget and Purchasing Division no later than the 1<sup>st</sup> working day of the month following the billing cycle." We recommend that management enforce adherence to the City's Purchasing Policy.

Management's Comments Regarding Corrective Action Planned

Compliance monitoring is ongoing. Cardholders who do not comply with the program requirements have their cards suspended and if necessary revoked. In order to better facilitate compliance with program requirements the Finance Department has begun the rollout of an upgraded purchasing card tracking system. This application allows cardholders to reconcile their monthly statements online, and allows for the suspension of cardholder purchasing privileges when statements have not been timely or properly reconciled.

- c. For four transactions, the relationship of the transaction to the business purpose of the department was not self-evident based upon the name of the vendor or the description on the receipt provided for that transaction.

Recommendation

The department's review of purchasing card transactions should include obtaining an understanding of the business purpose of transactions for which their relationship to department objectives is not clear. In some cases, this might involve contact by the departmental reviewer with the cardholder and documenting additional information for the transaction.

Management's Comments Regarding Corrective Action Planned

Management concurs with this recommendation. The corrective action planned in response to item (07-01 a.) Internal Controls over Purchase Cards is expected to address this recommendation.

(07-2) Excess Collection Refunds

Excess collection refunds resulting from various types of overpayments are processed by Municipal Services. A report is created in excel by an individual in Municipal Services and is then sent via email to the Department of Information Technology (IT). IT formats the report and sends it to Accounts Payable for processing. We recommend the controls below to reduce the risk that IT might add an unauthorized refund to the report since the final amount disbursed is not compared to what was initially approved by Municipal Services.

Recommendation

We recommend that the report that is created, reviewed, and approved in Municipal Services be signed and forwarded to Accounts Payable. Accounts Payable should ensure that the final amount disbursed agrees to what was initially approved by Municipal Services.

Management's Comments Regarding Corrective Action Planned

Accounts Payable already uses this technique for other payment processes similar to this and will implement this recommendation for the Excess Collection Refunds.

(07-3) Changes to Vendor Information

The Accounts Payable Supervisor has system access rights to add vendors, make changes to vendor information, and process invoices for payment within Peoplesoft (the accounting software). This combination of computer system access rights theoretically could allow the Accounts Payable Supervisor to input a fictitious vendor, create an invoice, and process a disbursement without detection by management.

Recommendation

We recommend that the Accounts Payable Supervisor be denied computer access rights to add vendors and to make other changes to vendor master file information.

Management's Comments Regarding Corrective Action Planned

Management agrees with this recommendation and will restrict the system access rights accordingly.

STATUS OF PRIOR YEAR AUDIT FINDINGS

During the audit for the year ended June 30, 2007, we determined the status of prior year audit findings previously communicated to City Council. The original comments as well as the status of those comments are included in this report.

(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 recommended 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 recommended that accounts payable personnel only process invoices that have been properly approved by comparing live signatures on invoices to the book of authorized signatures.

Status

During our audit for the year ended June 30, 2007, we randomly selected 25 cash disbursements for testing. We noted that 1 out of the 25 disbursements selected for testing was approved by an individual who at the time of disbursement was not an authorized signer. That individual was later added to the list of authorized signers. We saw considerable improvement in this area. We recommend that the book of authorized signatures be maintained and that accounts payable personnel only process invoices that

have been properly approved by comparing signatures on invoices to the book of authorized signatures.

(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 recommended that the City conduct a review of its construction in progress in order to support its balance outstanding at year end. We also recommended 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.

Status

The Department of Finance compiled a detailed listing by project for all construction in progress, which supported the ending balance at June 30, 2007. Finance also met with the Public Works Department in order to determine which projects were capitalizable. However, we noted that the detailed listing of construction in progress contained \$9,844,831 of non-capitalizable projects, which resulted in a prior period adjustment and a post-closing audit adjustment. We recommend that the Department of Finance and Public Works personnel meet at least annually to review construction in progress activity and ensure that only capitalizable projects are capitalized.

(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 audit for the fiscal year ended June 30, 2007 we inquired about the status of prior year internal control recommendations over cash receipts at the Paseo Colorado garages and noted the following:

- a. Computerized Parking Receipts - Resolved
- b. Access to the Safe - Resolved
- c. Restrictively Endorsing Checks - Resolved
- d. Customer Account Adjustments – Resolved
- e. City Management Review of Skidata Reports Provided by Modern Parking

During our audit for the fiscal year ended June 30, 2006, 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 recommended 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.

#### Comments from Modern Parking Inc.

In addition to over-rings, all debit card sales are recorded by the Ski Data system at the time the debit card is recharged and not at the time of the actual usage. Debit cards that are not drawn down to zero and then recharged, will cause for differences. Also, validations that are generated by the Ski Data system create a sale. Validations issued to the City and other entities that are at "no charge" will cause the system to overstate sales.

#### Status

System generated reports are provided by Modern Parking to the City on a monthly basis. However, reconciliation between the system generated reports and the cash receipts had not been performed by the City because there was a vacancy

in the Parking Division Manager position in the Department of Transportation. We recommend that the City reconcile the system generated reports to the cash receipts in a timely manner to ensure that all parking revenues are remitted to the City. The City should carefully monitor the amounts and frequency of over-ring transactions to determine whether these variances are reasonable during their review of these reports each month. If the variances are significant the City should consider utilizing the Internal Audit Department to investigate those differences.

#### (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 recommended 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.

#### Resolution

Detailed schedules by depositors were provided to support the balances at year end for *Miscellaneous Developer Deposits* and *Construction & Demolition Security Deposits*. In addition, the nonrefundable fees that had been collected for street planting projects and donations that had been contributed to the Library were accounted for as revenue during the current fiscal period.

#### (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.

Resolution

Management has compiled a list of assets purchased with these funds. That list contains a detailed breakdown of the value of each asset and the percentage of funding by each funding source.

The written responses and comments provided by the City and Modern Parking Inc. have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them

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.

*Mayor Hoffman McLean P.C.*

Irvine, California  
November 26, 2007