

CITY OF PASADENA

Single Audit Report on
Federal Awards

Year ended June 30, 2008

ATTACHMENT B

Conrad Government Services Division

MHM

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McCann P.C.
An Independent CPA Firm

CITY OF PASADENA
Single Audit Report on Federal Awards
Year ended June 30, 2008

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Honorable Mayor and City Council
 City of Pasadena, California

**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**

We have audited the financial statements of the City of Pasadena, California (City) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pasadena’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. The matter described in the accompanying Summary Schedule of Prior Audit Findings as item 06-2 conforms to this definition.

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.

We noted two immaterial matters involving internal control over financial reporting that we have reported to the City Council of the City of Pasadena in a separate letter dated December 12, 2008.

Honorable Mayor and City Council
City of Pasadena, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The written responses and comments provided by the City that are described in the accompanying Summary Schedule of Prior Audit Findings 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 City management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLean P.C.

Irvine, California
December 12, 2008



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Honorable Mayor and City Council
 City of Pasadena, California

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of City of Pasadena with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Pasadena’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Pasadena’s management. Our responsibility is to express an opinion on the City of Pasadena’s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Pasadena’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. Our audit does not provide a legal determination on the City of Pasadena’s compliance with those requirements.

In our opinion, the City of Pasadena complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, we noted an immaterial instance of noncompliance that we have reported to the City Council of the City of Pasadena in a separate letter dated December 12, 2008.

Internal Control Over Compliance

The management of the City of Pasadena is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Pasadena’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Pasadena’s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures and Federal Awards

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 as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Pasadena's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 12, 2008

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

	Federal Domestic Assistance Number	Program Identification Number	Program Expenditures	Amount Provided to Subrecipients
<u>Department of Housing and Urban Development</u>				
Direct Assistance:				
Community Development Block Grant Entitlement	14.218	n/a	\$ 2,025,465 *	819,078
Section 108 Loan - Fair Grove Shopping Center	14.248	n/a	<u>332,279</u>	<u>-</u>
Total CDBG Entitlement and Small Cities Grants			2,357,744	819,078
Section 8 Rental Voucher Program	14.871	CA079VO	11,801,673 *	-
Emergency Shelter Grant Program	14.231	n/a	96,868	96,868
Supportive Housing	14.235	n/a	1,018,702 *	1,018,702
Shelter Plus Care	14.238	n/a	345,935	345,935
Home-Investment in Affordable Housing	14.239	n/a	<u>1,068,754 *</u>	<u>778,979</u>
Total direct assistance			16,689,676	3,059,562
Passed through Pacific Clinics:				
Supportive Housing	14.235	10220000-305	20,446	-
Passed through the City of Los Angeles:				
Home Opportunities for Persons with AIDS	14.241	C98522	<u>19,702</u>	<u>-</u>
Total Department of Housing and Urban Development			<u>16,729,824</u>	<u>3,059,562</u>
<u>Department of Labor</u>				
Passed through the State of California:				
Workforce Investment Act - Adult	17.258	Various	1,031,149	82,901
Workforce Investment Act - Youth	17.259	Various	543,043	231,836
Workforce Investment Act - Dislocated Workers	17.260	Various	465,665	68,283
Workforce Investment Act - Rapid Response	17.260	Various	435,934	-
Workforce Investment Act - Foster Youth	17.267	Various	210,950	163,025
Passed through the County of Los Angeles:				
Workforce Investment Act - Adult	17.258	Various	72,360	8,337
Workforce Investment Act - Youth	17.259	Various	69,293	34,703
Workforce Investment Act - Dislocated Workers	17.260	Various	<u>70,145</u>	<u>1,940</u>
Total Department of Labor			<u>2,898,539</u>	<u>591,025</u>

* Major program
n/a = not available

(Continued)

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
(Continued)

	Federal Domestic Assistance <u>Number</u>	Program Identification <u>Number</u>	Program <u>Expenditures</u>	Amount Provided to <u>Subrecipients</u>
<u>Department of Health and Human Services</u>				
Passed through the State of California				
Department of Health Services:				
Maternal and Child Health Services Block Grant	93.994	200661	249,692	-
Centers for Disease Control and Prevention - TB Control	93.283	TB CSGF 90-76	39,193	-
Child Health Development Program - Foster Care	93.658	n/a	80,892	-
Child Lead Poison Prevention	93.197	95-6000759	87,699	-
CHDP Gateway	93.778	n/a	201,396	-
Medi-Cal Administrative Claiming	93.778	04-35118	386,072	-
Immunization Subvention Funds	93.268	98-15761,99-86354	63,890	-
Public Health Preparedness and Response for Bioterrorism	93.069	n/a	575,173	-
AIDS Drug Assistance Program - ADAP	93.917	n/a	7,988	-
Children's Outreach, Enrollment, Retention and Utilization	93.778	PH 000011	13,799	-
Passed through the County of Los Angeles:				
Alcohol and Drug Abuse/Mental Health Services Block Grant	93.992	Various	230,826	-
AIDS HIV Early Intervention	93.915	H209212	819,169	-
Total Department of Health and Human Services			2,755,789	-
<u>Department of Justice</u>				
Direct Assistance:				
Asset Forfeiture	16.000	CA 1953	122,765	-
Local Law Enforcement Block Grants Program	16.592	2006-DJ-BX-0215	76,978	-
Passed through the State of California Department of Criminal Justice and Planning:				
Elder Abuse and Advocacy and Outreach Program - VOCA Grant	16.575	EA 04077625	1,193	-
Total Department of Justice			200,936	-
<u>Department of Treasury</u>				
Direct Assistance:				
Asset Forfeiture	21.000	CA 1953	21,276	-
Total Department of Treasury			21,276	-

* Major program
n/a = not available

(Continued)

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA
Schedule of Expenditures of Federal Awards
(Continued)

	Federal Domestic Assistance <u>Number</u>	Program Identification <u>Number</u>	Program <u>Expenditures</u>	Amount Provided to <u>Subrecipients</u>
<u>Department of Agriculture</u>				
Passed through the State of California Department of Health Services:				
Supplemental Food Program for Women, Infants and Children (WIC)	10.557	05-45781	857,822	-
Total Department of Agriculture			857,822	-
<u>Department of Transportation</u>				
Passed through the California Department of Transportation:				
Highway Planning and Construction	20.205	Various	8,600,080	-
State and Community Highway Safety	20.600	Various	394,225	-
Total Department of Transportation			8,994,305	-
<u>Department of Homeland Security</u>				
Passed through the County of Los Angeles:				
Urban Areas Security Initiative	97.008	Various	187,517	-
Public Assistance Grants	97.036	037-56000	488,732	-
Total Department of Homeland Security			676,249	-
Total Expenditures of Federal Awards			\$ 33,134,740	3,650,587

* Major program
n/a = not available

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF PASADENA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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 that are reimbursable under the programs of federal agencies providing financial assistance. For the purposes of this schedule, financial assistance includes 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 are 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.

(c) Subrecipients

During the fiscal year ended June 30, 2008, the City disbursed \$3,650,587 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

(d) Loans Outstanding

At June 30, 2008, outstanding loans under the U.S. Department of Housing and Urban Development – Section 108 program and U.S. Department of Housing and Urban Development – HOME program were \$1,835,000 and \$4,306,979, respectively. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards. Outstanding loans under the U.S. Department of Housing and Urban Development – Community Development Block Grant program were \$691,344 at June 30, 2008. Amounts expended from loan proceeds are reflected in the accompanying Schedule of Federal Awards.

(e) Additional Disclosures for Elder Abuse and Advocacy and Outreach Program

Total grant expenditures for the Elder Abuse and Advocacy and Outreach Program of \$82,066 are comprised of \$1,193 for personnel services and \$80,873 for operating expenditures. The match on the Victims of Crime Act (VOCA) grant was \$22,500 in operating expenditures.

CITY OF PASADENA
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting. There was one significant deficiency in internal control over financial reporting that we described as item 06-2.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were as follows:
 - Department of Housing and Urban Development – Community Development Block Grant Entitlement – CFDA #14.218
 - Department of Housing and Urban Development – Section 8 Rental Voucher Program – CFDA #14.871
 - Department of Housing and Urban Development – Supportive Housing Program – CFDA #14.235
 - Department of Housing and Urban Development – HOME – CFDA #14.239
8. The dollar threshold used to distinguish Type A and Type B programs was \$994,042.
9. The auditee was considered a low risk auditee for the year ended June 30, 2008 for the purposes of determining major programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

See finding 06-2 on the Summary Schedule of Prior Audit Findings.

CITY OF PASADENA

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) of OMB Circular A-133

There were no auditors' findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

CITY OF PASADENA
Summary Schedule of Prior Audit Findings
Year ended June 30, 2007

The following is the status of prior audit findings:

(07-1) Internal Controls over Purchase Cards

Resolved.

(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 recommended 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 recommended 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.

Status

The excel based report is still sent from Municipal Services to IT for formatting. In addition, a word based document is attached to that initial email from Municipal Services to IT in which Municipal Services indicates the total amount to be processed. IT then forwards these two documents along with the formatted file to Accounts Payable for processing. However, there is still a risk that the excel based report and word documents that are sent from Municipal Services could be altered and then an unauthorized refund could be processed and concealed since the final amount disbursed is not compared to what was actually approved by Municipal Services. The word based report that is sent to IT is printed out and signed by an individual in Municipal Services; however, that report is filed and kept in Municipal Services and is not forwarded to Accounts Payable. We recommend that this signed report be forwarded to Accounts Payable who should ensure that the final amount disbursed agrees to what was approved by Municipal Services. This comment is not considered to be a significant deficiency since excess collection refunds for the year ended June 30, 2008 were considered to be inconsequential in relation to the City's overall financial statements.

CITY OF PASADENA

Summary Schedule of Prior Audit Findings

(Continued)

(07-2) Excess Collection Refunds, (Continued)

Management's Comments Regarding Corrective Action Planned

Accounts Payable had partially implemented the corrective action recommended. The full recommendation is now in place and is being utilized.

(07-3) Changes to Vendor Information

Resolved.

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

Resolved.

(06-2) Construction in Progress

During the year ended June 30, 2006, it was noted that the City had not maintained a detail listing that supported the ending balance of construction in progress at year end by project. Since the City did not have a detailed listing by project, the City was unable to determine if any projects had been mistakenly capitalized that should have been expensed.

During the year ended June 30, 2007, a detailed listing by project for all construction in progress was compiled, which supported the ending balance at year end. However, it was 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.

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

During the year ended June 30, 2008, additional projects which amounted to \$3,599,089 were identified as being non-capitalizable projects, which had been mistakenly capitalized and recorded as construction in progress. 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.

CITY OF PASADENA

Summary Schedule of Prior Audit Findings

(Continued)

(06-2) Construction in Progress, (Continued)

Management's Comments Regarding Corrective Action Planned

Staff had partially implemented the suggestion through numerous communications between Finance and Public Works and had believed that appropriate capitalization had been accomplished. To further implement corrective action on this item Finance and Public Works will formally meet. Additionally, staff will incorporate a column in our work papers that will identify when a project should be capitalized or expensed.

(06-3) City Management Review of Skidata Reports Provided by Modern Parking

Resolved.