

# Agenda Report

**TO:** CITY COUNCIL/PASADENA COMMUNITY DEVELOPMENT COMMISSION    **DATE:** January 12, 2009

**THROUGH:** AUDIT COMMITTEE

**FROM:** CITY MANAGER/CHIEF EXECUTIVE OFFICER

**SUBJECT:** JOINT ACTION: FISCAL YEAR JUNE 30, 2008 ANNUAL FINANCIAL REPORTS

## **RECOMMENDATION OF CITY MANAGER/CHIEF EXECUTIVE OFFICER**

It is recommended that the following audited reports for the year ending June 30, 2008 be received by the City Council and/or Pasadena Community Development Commission (PCDC):

- A. Comprehensive Annual Financial Report
- B. Single Audit Report on Federal Awards
- C. Pasadena Community Development Commission Annual Financial Report
- D. Management Letter – City of Pasadena
- E. Pasadena Center Operating Company Basic Financial Statements
- F. Rose Bowl Operating Company Basic Financial Statements
- G. Pasadena Fire and Police Retirement System Report and Audited Financial Statements and Required Supplemental Information
- H. Air Quality Improvement Fund Financial and Compliance Report
- I. Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheets
- J. Independent Accountant's Report on Agreed-Upon Procedures Applied to Employee Deduction for the Internal Revenue Code Section 457
- K. The Auditors Communications with those charged with Governance

## **BACKGROUND:**

All of the five attached Financial Statements received unqualified opinions from our 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..." Six reports deal with compliance information, specific audit test work, and provide comment on errors, lack of errors, or suggestions for future improvements. The auditors did not identify any deficiencies in internal control that are considered a material weakness. However, they did identify one item that is considered a significant deficiency and two items that are considered immaterial. Management takes all findings very seriously and uses the information as a tool to continually improve our operations.

### **Comprehensive Annual Financial Report (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 Comprehensive Annual Financial Report for the year ending June 30, 2008, the City received an unqualified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles.

### **Single Audit Reports (Attachment B)**

The Single Audit Act of 1984 and Single Audit Act Amendments of 1996 establish uniform audit requirements for local governments expending federal awards greater than \$300,000 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. Attached, please find the Single Audit Reports for the year ended June 30, 2008. Information on the findings reported in the "Management Letter" are summarized in this report.

### **Pasadena Community Development Commission Financial Statements (Attachment C)**

In accordance with the California Health and Safety Code Section 33080.1, a redevelopment agency shall present to its legislative body an annual independent financial audit report for the previous fiscal year. The report should present the results of the operations and financial position of the agency, including all financial activities with moneys required to be held in a separate Low and Moderate Income Housing Fund pursuant to Section 33334.3. Attached, please find the Pasadena Community Development Commission Annual Financial Report for the year ended June 30, 2008. The bound report also includes the Report of Independent Auditors On State Compliance and the Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed in Accordance With Government Auditing Standards.

### Management Letter (Attachment D)

The management letter provides a general overview of the financial report and identifies certain matters involving the internal control structure and other operational matters including comments and recommendations for improvement. These comments and recommendations have been reviewed with the appropriate members of City staff and responses provided. This report includes a finding that is considered a significant deficiency in that the test work of the auditors resulted in a modification to our financial statements related to the capitalization of Capital Projects versus the expensing of maintenance costs for \$3.5 million. Staff had partially implemented the suggestion through numerous communications between Finance and Public Works and believed that appropriate capitalization had been accomplished. To further implement corrective action on this item, Finance and Public Works will formally meet and has already discussed a solution.

One of two items considered immaterial will result in an improved process for evaluating and recording an estimate for "incurred but not reported" claim liability. The second finding was on a report that was submitted after its deadline due to extenuating circumstances.

### Component Unit Financial Statements (Attachments E, F, G)

Financial statements for Pasadena Center Operating Company, Rose Bowl Operating Company and Pasadena Fire and Police Retirement System 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 unqualified 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.

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

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 provide this report, which confirms the City's compliance. No exceptions were noted.

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

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 Hartford. No exceptions were noted.

The Auditor's Communications with Those Charged with Governance (Attachment K)

One new auditing pronouncement, Statement of Auditing Standards (SAS) No. 114 requires more 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 define their role. They noted that there were no disagreements with management nor were there any significant difficulties in dealing with management in completing their audit.

**FISCAL IMPACT:**

There is no fiscal impact as a result of this report. The annual financial report set forth the City's financial position as it stood on June 30, 2008.

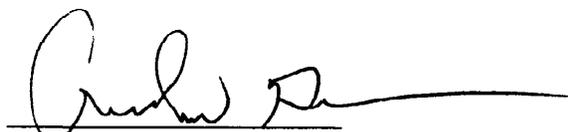
Respectfully submitted,



**MICHAEL J. BECK**

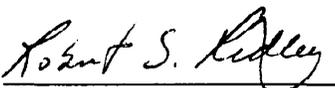
City Manager/Chief Executive Officer

Approved by:



Andrew Green  
Director of Finance

Prepared by:



Robert S. Ridley  
Controller