

Agenda Report

December 13, 2010

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

THROUGH: Audit Committee

FROM: Director of Finance

SUBJECT: JOINT ACTION: FISCAL YEAR JUNE 30, 2010 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following audit reports for the year ending June 30, 2010 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 Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
- K. The Auditors Communications with the City's Audit and Finance Committees
- L. Other Post Employment Benefits Actuarial Study

EXECUTIVE SUMMARY:

This action is to receive and file the City's six annual financial statements, five compliance-related reports, and one actuarial study for the fiscal year ended June 30, 2010. All financial statements received an unqualified (or clean) opinion. No material weaknesses in internal controls were noted; however, seven lesser findings were reported. A brief presentation will be made by the City's external auditors, Mayer Hoffman McCann P.C.

BACKGROUND:

All of the six 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..." Five 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 current year item that is considered a significant deficiency, four lesser control deficiencies, and reported on two prior year items that have not been fully resolved.

Comprehensive Annual Financial Report (CAFR)

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, 2010, 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

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 is the Single Audit Reports for the year ended June 30, 2010. Information on the findings reported in the "Management Letter" are summarized in this report.

Pasadena Community Development Commission Financial Statements

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, is the Pasadena Community Development Commission Annual Financial Report for the year ended June 30, 2010.

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

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 two findings that are considered a significant deficiency; one from the current year and one from the prior year. The current year comment relates to the inadequacy of the accounts receivable reports received from the City's outside paramedic billing vendor. The second significant deficiency is a follow up to a finding from the prior year that has not been fully resolved. In both cases staff is fully aware of the issues and has been actively pursuing solutions.

Four additional current year comments are related to an assessment of general information technology general controls performed, which identified control deficiencies. The Department of Information Technology has already begun corrective actions. One item related to a prior year finding that was partially resolved about review and reconciliation of monthly parking garage vendor reports to actual parking data. In all cases, staff has provided responses and has taken corrective actions.

Component Unit Financial Statements

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

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

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

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 the City's Audit and Finance Committees

One newer 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 material weaknesses in internal controls, no difficulties encountered in performing the audit, and no disagreements with management; however, they reported that there were two uncorrected misstatements involving adjustments to paramedic billing receivable and congestion revenue rights. These two passed adjustments were not material either individually or in aggregate.

Retiree Health Program Actuarial Valuation Report

Government Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions requires an actuarial study be performed every two years. This study complies with this requirement and shows that the City had an Annual Required Contribution of \$3,004,444 for the fiscal year ended June 30, 2010. As the City has elected not to pre-fund and is only funding "pay as you go", or \$338,920, the Net OPEB Obligation has been increased by the unpaid balance of \$2,665,524.

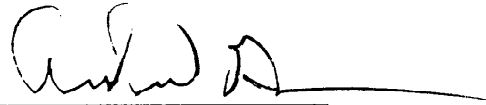
COUNCIL POLICY CONSIDERATION

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:

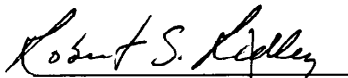
This report is for information only.

Respectfully submitted,

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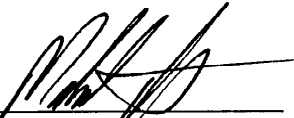
ANDREW GREEN
Director of Finance

Prepared by:

A handwritten signature in black ink, appearing to read "Robert S. Ridley", written over a horizontal line.

Robert S. Ridley
Controller

Approved by:

A handwritten signature in black ink, appearing to read "Michael S. Beck", written over a horizontal line.

MICHAEL S. BECK
City Manager