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ATTACHMENT D

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, 2009, 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. The matter described below as item 09-1 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. **We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.**

Statement on Auditing Standards (SAS) No. 112 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). Our recommendations resulting from our audit process are as follows:

(09-1) Enhancing Controls over Supplies Inventory

The City has a formal policy regarding inventory cycle counts. Cycle counts are performed regularly in accordance with the policy, with a focus on high-value material items. Results of the cycle counts performed were validated through our physical inventory observation, although it was noted that one high ticket item that had been withdrawn from inventory remained reflected as inventory in the City's accounting records. It is important to identify and remove withdrawn inventory from the accounting records in a timely manner.

(09-1) Enhancing Controls over Supplies Inventory, (Continued)

Recommendation

We recommend that the City continue to improve policies and procedures to enhance proper accountability over inventory records and physical inventory counts.

Management's Comments Regarding Corrective Actions Planned

The City will update existing formal policies to improve validation of physical inventory counts, including implementation of periodic complete physical inventory counts for selected high-value items, including cost validation. Cycle counts will also be continued in accordance with the existing policy. A quarterly summary of cycle counts will be prepared to ensure adherence to existing policy regarding frequency, proper procedure and use of proper documentation.

The City will also develop and implement a policy to document and strengthen procedures for updating inventory accounting records for activity occurring during *emergencies and* after regular business hours. These procedures will ensure that inventory materials removed from physical inventory during an emergency response or after-hours activities are properly adjusted as inventory in the City's accounting records.

STATUS OF PRIOR YEAR AUDIT FINDINGS

During the audit for the year ended June 30, 2009, 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.

(08-1) Estimate for Incurred but Not Reported (IBNR) Claims Liability

The City maintains self-insurance programs for general liability and workers' compensation. A case reserve is established for each claim and a claim liability is reported in the General Liability and Workers' Compensation Internal Service Funds based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated, including incurred but not yet reported claims.

As of June 30, 2008, \$10,815,334 and \$15,567,686 has been recorded for reported general liability claims and workers' compensation claims, respectively. As of June 30, 2008, \$500,000 and \$225,000 has been recorded for estimated *incurred but not reported* (IBNR) general liability claims and workers' compensation claims, respectively. The estimate for IBNR claims liability was determined several years ago and has only been reevaluated based on professional judgment and without a formal or analytical review and not adjusted since then.

Recommendation

IBNR is an estimate and should be based on past experience adjusted for current trends, and any other factors that would modify past experience. The estimate for IBNR claims liability should be reevaluated using past experience adjusted for current trends in order to determine whether the amount that has been recorded is reasonable.

Management's Comments Regarding Corrective Action Planned

Management concurs with this recommendation and will perform a more formal and analytical review of the IBNR claims liability for the following year and periodically thereafter.

Resolution

During year ended June 30, 2009, the City completed a formal detailed analytical review of the IBNR claims liability estimate as of June 30, 2009.

(08-2) Annual Progress Report for the Supportive Housing Program

The City is required to submit an Annual Progress Report for the Supportive Housing Program within 90 days after the end of each operating year. An Annual Progress Report for the Supportive Housing Program was due September 30, 2007. However, the report was not submitted until March 24, 2008.

Recommendation

We recommend that the City submit Annual Progress Reports in a timely manner.

Resolution

During year ended June 30, 2009, we selected the two largest SHP contracts and verified that the Annual progress Reports (APR) were filed on time and noted no exceptions.

(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 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.

Resolution

During year ended June 30, 2009, we reviewed the excel and word based reports that are signed off by Municipal services, the City created reports are forwarded to accounts payable with the amounts that should be disbursed to ensure that the final amount disbursed agrees to what was approved by Municipal Services. We reviewed the reports and noted no exceptions.

(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.

During the year ended June 30, 2008, 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 \$3,599,089 of non-capitalizable 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.

Resolution

Based on the results of testing during the year ended June 30, 2009, no instances were identified of projects, which had been mistakenly capitalized and recorded as construction in progress.

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

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.

During our audit for the fiscal year ended June 30, 2006, we noted that the City of Pasadena received a Daily Deposits Report, which was an excel based report that summarized the cash receipts that were collected for each parking garage. At the end of each month the City also received a Garage Summary Report, which was an excel based

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

report that summarized the parking revenue for the month. This report was used to record the parking revenue by garage and to reconcile the daily deposits per the Daily Deposits Report and the bank statement. However, the City did 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.

Status

Based on the results of testwork performed, we found that the Parking Division is provided system generated reports by Modern Parking. However, the reports are not reconciled by the City on a constant timely Basis.

The written responses and comments provided by the City 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.

Nayer Holtzman McClann P.C.

Irvine, California
December 17, 2009