

Agenda Report

January 9, 2012

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

THROUGH: Audit Committee

FROM: Director of Finance

SUBJECT: JOINT ACTION: FISCAL YEAR JUNE 30, 2011 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following audit reports for the year ending June 30, 2011 be received by the City Council and/or Pasadena Community Development Commission (PCDC):

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

EXECUTIVE SUMMARY:

This action is to receive and file the City's six annual financial statements and four compliance-related reports for the fiscal year ended June 30, 2011. All financial statements received an unqualified (or clean) opinion. No material weaknesses in internal controls were noted; however, ten lesser findings were reported. The Single Audit Report will be presented at a later meeting. A brief presentation will be made by the City's external auditors, Brown Armstrong, Certified Public Accountants.

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..." Four 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 five current year items that are considered a significant deficiency, five lesser items that provide an opportunity for improving internal controls, and reported on five prior year findings.

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, 2011, 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.

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, 2011.

The bound report 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*. Also included is the calculation of excess surplus, the Fiscal Statement required by State law and an additional report from the auditors to comply with newly clarified requirements per the State Controller. This new audit opinion, *Independent Auditor's Report On Compliance and On Internal Control Based On An Audit Of*

Compliance Performed In Accordance With Guidelines For Compliance Audits of California Redevelopment Agencies, 2011, Issued By The State Controller, is the last report found in the bound financial statements for the Pasadena Community Development Commission.

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. The most severe level of finding is a material deficiency. There were no material deficiency findings. This report does include five findings that are considered a significant deficiency. In each case a response indicating that the item has been addressed or indicates the steps that the City will take to address each item. In all cases staff has discussed the matter involved with the auditors, has a full understanding of the issues, and either already has or will resolve each matter.

The five items listed under "Current Year Other Matters" do not rise to the level of a material or significant deficiency, but are opportunities for the City to improve existing processes, strengthen internal controls, or to increase efficiency. Staff has also provided responses and has taken or will take corrective actions.

Lastly, one item represents a prior year matter that was a "significant deficiency" and four lesser prior year matters are reported with an updated status.

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. The Pasadena Community Access Corporation is not included in the 2011 CAFR. They will be audited and included in the 2012 CAFR.

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. One exception was noted and the correction will be included in future calculations.

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 provide commentary on management's responsibilities for accounting policies and estimates, that no significant difficulties were encountered in performing the audit, and no disagreements occurred with management. They point out that management has corrected all known misstatements, even those that could be passed adjustments that would be not material either individually or in the aggregate.

SINGLE AUDIT REPORTS

The Single Audit Report would traditionally be presented at this time. As it is not yet complete, it will be brought to you in the very near future. It has a due date of March 31, 2012. 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 \$500,000 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.

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:

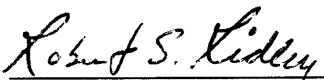
There is no fiscal impact as a result of this action and it will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



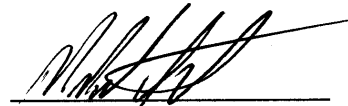
ANDREW GREEN
Director of Finance

Prepared by:



Robert S. Ridley
Controller

Approved by:



MICHAEL J. BECK
City Manager

* Attachments:

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* Attachments are included in Council packets.