



BROWN ARMSTRONG

Certified Public Accountants

To the Honorable City Council
City of Pasadena
Pasadena, California

In planning and performing our audit of 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 (the City) as of and for the year ended June 30, 2013, 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 opinions 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 deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

As a service to the City, we also identified during our audit certain matters that provide you an opportunity to enhance your existing internal controls. These matters are provided as recommendations for your consideration and are not considered to be material weaknesses or significant deficiencies in internal control. The other matters are presented in the "Significant Deficiencies and Other Matters" attachment.

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.



REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

This communication is intended solely for the information and use of management, City Council, others within the City, and 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
November 8, 2013

SIGNIFICANT DEFICIENCIES AND OTHER MATTERS

CURRENT YEAR SIGNIFICANT DEFICIENCIES

None.

CURRENT YEAR OTHER MATTERS

13-01 Cash Disbursements

To test the City's controls over accounts payable and cash disbursements, we selected a sample of fifty one (51) cash disbursements that occurred during the year and reviewed the supports and approvals to ensure that they were booked in accordance with accounting requirements. One (1) of the fifty one (51) cash disbursements was not approved by the authorized signatory.

Recommendation

We recommend that the City's Accounts Payable Division take steps to ensure that all invoices processed have been approved by an individual authorized to approve the invoice submitted.

Management's Comments Regarding Corrective Actions Planned

It should be noted that this involved a \$133.00 transaction. The current system requires manual intervention to determine authorization for permitted transactions. This requires Accounts Payable (AP) staff to verify each signature against the signature authorization form to determine if the signature is valid and appropriate for each invoice. In this particular case, the individual that signed for the disbursement is an authorized signatory for some items but not for this type of disbursement. Considering that there are fourteen different approval codes that are listed on the signature authorization, and the fact that each City staff member can have multiple approval code combinations, this process can be cumbersome, especially during peak times. Management will review the current signature authorization form for improvement.

AP staff works diligently to verify that all invoices meet the requirements of the City's approval policies. AP will continue to closely monitor all invoices that are submitted to ensure proper approval authorization has been obtained prior to processing invoices for payment. Going forward, the City is finalizing plans to award a contract for a new Enterprise Resource Planning (ERP) system citywide. The City's ERP solution will provide for validation of authority for approval through the work-flow process for approvals as a built in automatic feature and represents the best solution to this issue.

An internal audit of AP process and procedures has been added to the items contemplated for inclusion in the City's annual internal audit plan.

13-02 Cash Handling

To test the City's controls over cash handling and to ensure that cash handling procedures are being properly followed, we visited three (3) departments, namely Park and Recreation, Library Services, and Human Services. We noted:

- Cash at the Central Library and Jackie Robinson Center was short and did not match with their records during our surprise cash count.
- Cash registers were being shared by multiple people at the Central Library and Jackie Robinson Center.
- At the Central Library, the register did not have tape to record cash transactions.
- Transactions were not entered into the Active Net system at the time cash was received.

Recommendation

We recommend:

- The City's cash handling policies be made available to all persons handling cash and an acknowledgement should be obtained from employees noting that they have read and understand the policies.
- Cash to be handled in dual custody.
- Daily reconciliations to be completed by a person not handling cash, or by a supervisor.
- Proper training to be provided to those handling cash.

Management's Comments Regarding Corrective Actions Planned

The City agrees with this recommendation and has implemented the recommendation in almost all situations. As reported in the October 28, 2013, memo to the Audit/Finance Committee, Human Services and Recreation have implemented the changes recommended here. The Library has implemented some but not all of the recommendations due to the nature of its operations. The Finance Department will conduct an analysis by November 28, 2013, to determine what steps and mitigating controls can be applied to address the two recommendations made but not fully implemented by the Library. It should also be noted that the audit tests that resulted in these findings were conducted prior to numerous actions taken by the City in response to the City's Cash Handling internal audits, including cash handling trainings (both conducted and scheduled) for all cash handlers. The amount of the shortage found at the Library was \$6.80.

PRIOR YEAR SIGNIFICANT DEFICIENCIES

12-01 Accounts Payable

During our testing of unrecorded liabilities, we selected a sample of forty (40) material cash disbursements that occurred subsequent to fiscal year-end and reviewed support to ensure that they were accrued in accordance with accounting requirements. The results of our testing showed the following:

- One (1) of the forty (40) disbursements was not adequately accrued. The total of the disbursement totaled \$97,424.30.
- One (1) of the forty (40) disbursements lacked sufficient support. The total of the disbursement totaled \$155,925.

Recommendation

We recommend that the City's Accounts Payable Division enter the activity periods for each invoice received into the City's accounting software, PeopleSoft. This provides the Finance Department the ability to do query searches based on activity date to assist in its determination of accounts payable completeness and accuracy. In addition, we recommend that the Accounts Payable Division actively seek to maintain complete records of its transactions.

Management's Comments Regarding Corrective Actions Planned

In conjunction with the Accounting Division, Accounts Payable establishes a cut-off date to receive and process invoices from the previous fiscal year. The Accounts Payable staff works diligently with departments to make sure that invoices are submitted in timely. Going forward, amendments have been made to the Accounts Payable end-of-year process in order to more effectively capture all accruable expenses. Accounts Payable has taken steps to extend the initial accrual cut-off date as well as provide for a longer accrual period following the initial cut-off date. Also, with the implementation of AvidXchange, the City's new electronic invoice routing system, Accounts Payable staff will be able to track invoices more efficiently.

Specifically, in reference to the \$155,925 disbursement, which was a reimbursement to the Pasadena Unified Court for state mandated fees collected by the City of Pasadena, the documentation provided for these types of transactions furnish a breakdown of the number of citations and the amounts collected for various penalties. This court payment breakdown document is signed by the Municipal Services supervisor and countersigned by the City Treasurer. For future payment requests, Accounts Payable has requested the Treasury division to submit the corresponding report that is generated from the parking system as back-up documentation to be attached to its request for payment. Accounts Payable will continue to require sufficient back-up documentation from departments for all invoices and other payment request.

With respect to the auditor's recommendation to enter the activity periods for each invoice received into the City's accounting software, this function is currently is not available in PeopleSoft. The City is presently soliciting proposals to engage a new ERP system citywide. Accounts Payable will explore the options to accomplish the purpose of the auditor's recommendation in the course of implementing the new accounting system.

Current Year Status

Item completed. The City has extended the initial cut-off periods used to accrue expenses into the correct fiscal year. Accounts Payable continues to work diligently to verify that all invoices meet the requirements of the City's approval process and are accrued to the correct accounting period.

12-02 Personnel File Requirements

To test the City's controls over payroll, we selected a sample of forty (40) City employees. During our analysis, we noted four (4) out of forty (40) employees selected for testing did not have documents validating information on their I-9 forms.

Reform and Control Act of 1986 (IRCA) requires that all employers verify the employment eligibility and identity of all employees hired to work in the United States after November 6, 1986. Compliance with IRCA is documented through the completion and maintenance of Employment Eligibility Form I-9.

Recommendation

While new Personnel File Requirements have been developed over time and firmly implemented within the past four years (per discussion with Human Resources Manager), there are no monitoring procedures within the Human Resources Department for personnel files that have missing requirements. To ensure federal compliance of the IRCA, we suggest that the City actively seek to maintain complete records for each City employee. We suggest that monitoring procedures be developed and implemented which will periodically review personnel files for missing required documents (Form I-9 and copies of the supporting documents).

Management's Comments Regarding Corrective Actions Planned

The City agrees with the recommendation and will implement it.

Current Year Status

The City believed this item had been completed.

With regard to I-9 completion and retention, the Human Resources Department has improved its quality control in recent years. The I-9 form is part of the new hire onboarding process before an employee can begin working for the City of Pasadena, and a trained Human Resources staff person assists with completion of the form and verifies the validating documentation. Based on the prior audit, we also modified our retention methods and initiated a process to ensure compliance for longer-term employees. All I-9 forms were removed from employee personnel files and were compiled in a central location in the Human Resources Department. A review of each current employee's I-9 form and supporting documentation was conducted, and those with missing information were contacted and asked to bring appropriate documentation to Human Resources. We believed this brought us into 100% compliance, but it appears that one long-term employee was overlooked.

In response, we will undertake another comprehensive audit of I-9 forms for all current City of Pasadena employees to ensure that the form is complete and the copies of the supporting documentation are present.

PRIOR YEAR OTHER MATTERS

12-03 Payroll Vacation Accrual

To test the City's controls over payroll, we selected a sample of forty (40) City employees. During our analysis, we noted three (3) out of forty (40) employees tested were a part of the Fire Department. The testing of internal controls over payroll revealed an issue with the City's payroll system's recording of accrued vacation hours remaining for Fire Department employees. The result of this issue is that paystubs for Fire Department employees are not displaying the accurate number of accrued vacation hours remaining.

Recommendation

We recommend the City notify the Fire Department employees of this issue and provide them with accurate numbers for their accrued vacation hours remaining balance immediately and continue to update the employees with accurate balances for every pay period until the issue is resolved.

Management's Comments Regarding Corrective Actions Planned

This is a technical issue that the City has been fully aware of. The Fire Department is aware there are a few differences and do not necessarily rely on their pay stubs, but utilize their timekeeping system, Telestaff. Fire and Payroll are coordinating data, however, some differences remain. This issue will be addressed with the new ERP system. In the interim, however, coordination with the City's IT department to improve the accuracy of these accruals will continue.

Current Year Status

The status on this remains unchanged and the City has a working solution in place. This item will be fully addressed upon the implementation of the planned ERP system.

12-04 Police Department and Human Services and Recreation Revenue Cycle

During our walkthrough of the City's Police Department and Human Services and Recreation revenue cycle, we noted the following items:

- A Human Services and Recreation pool and a recreation center not recording and reconciling cash.
- Police Department not reporting a transfer of cash within the department to the City.

Recommendation

We recommend that the Human Services and Recreation Department and the Police Department review the procedures regarding monitoring of cash receipts to ensure the above points are addressed.

Management's Comments Regarding Corrective Actions Planned

In regards to Human Services and Recreation, the City agrees with this finding and has already addressed the issues presented. All Human Services and Recreation Department staff that process customer transactions have been provided with the City's cash handling policies. The Department also retrained all part-time staff working at these sites during the seasonal period in question. The Department will continue to convey the policy and appropriate cash handling practices on an annual basis as seasonal part-time staff are hired to process customer program registrations and reconcile financial

transactions. Additionally, the Department continues to advertise online registration to encourage users to register online to minimize the amount of cash handling. Staff is also creating registration incentives using discounts to further encourage online registration. The Department is developing a business plan that will require the updating of Department wide policy and procedures, which will include required practices for cash handling

In regards to the Police Department, the City agrees with this finding and will implement the recommendation of the independent auditor.

Current Year Status

Items completed. The City has completed training of all Human Services and Recreation employees and provided the updated cash handling policy. The Police Department finding has been resolved through the continuance of dual custody and the changing of safe combinations upon the transfer of duty assignments.