



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 City of Pasadena, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the following deficiencies to be material weaknesses:

Financial Statement Close Process

Condition:

As a result of our audit procedures, it was noted that the overall financial statement close process does not enable the City to close the records in a timely fashion. The following items were noted:

- Bank reconciliations not being completed within a timely manner after year-end
- Closing journal entries still being prepared after several months after year-end
- The CAFR not being ready before December 31





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Management's Response:

The City agrees with this finding. The City has a detailed plan for closing the fiscal year and publishing a timely CAFR. Implementing all of the core financial modules of an ERP system was a monumental task and proved to be more work than anticipated. Key milestones included completion of all bank reconciliations along with detailed analysis and review in order to accurately record all required closing entries. Finance is dependent on all Departments to timely submit all fiscal year invoices for payment and timely billing of receivables. These are two areas that require further improvement for Fiscal Year 2017. There is no shortcutting of these procedures and staff worked diligently to accomplish them.

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. We consider the following deficiencies to be significant deficiencies:

Grants reconciliation

Condition:

During our audit procedures of the federal grants, we noted that some grant activity was not documented on the schedule of federal awards and had not been reconciled to the general ledger at the end of the fiscal year resulting in adjustments to the schedule. This resulted in federal expenditures being reported in the incorrect accounting period. We recommend that grant activities be reconciled to the general ledger to avoid misreporting grant activity on the schedule of federal awards.

Management's Response:

The City agrees with this finding and will work with Departments on timelier reporting of grant allocations and billings related to primarily grant funded Projects. The City does currently reconcile to the General Ledger.

Long-Term Debt

Condition:

During the fiscal year, the City executed an advance refunding of debt. Governmental Auditing, Accounting and Financial Reporting requirements state that an advance refunding results in a deferred gain/loss calculated as the difference between the reacquisition price of and the carrying value of the refunded debt at the time of refunding. Upon our initial review of the CAFR it was discovered that this deferred/inflow outflow was not recorded or disclosed. This resulted in an adjustment to the Government-wide Statement of Net Position.

Management's Response:

The City agrees with this finding but had already made the necessary correction to the financial records prior to this being brought to our attention by the Auditors.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
February 7, 2017