



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 the City of Pasadena, California, (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 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.

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. However, material weaknesses may exist that have not been identified. We did identify the following deficiencies in internal control that we consider to be significant deficiencies:

Capital Assets Reconciliation

As a result of our audit procedures, it was noted that the City's capital assets processes are decentralized and that assets are not being reconciled regularly throughout the year. As a result, capital projects costs were being added to construction in process without sufficient review, leading to sufficient restatements in the current year to remove prior year costs from construction in process, which should have been previously expensed. Additionally, there is no formal process requiring departments to communicate disposals to finance, resulting in insufficient supporting documentation over disposals.





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Management's Response: The City agrees with this finding. Finance is reinforcing existing procedures to increase meetings with individual department project managers to twice a year to review their projects and help answer any questions that they have in regards to what expenses are qualified to be capitalized and which expenses should not. We will enhance existing asset disposal form to more formalize the disposal process, along with a reason for the disposal and the method of disposal, which will be authorized by an appropriate person from the department.

Cash Reconciling Items

During our audit procedures, we noted that the City lacks policy's requiring departments to finalize cash batches and investigate issues in a timely manner. As a result the City's bank reconciliations contain multiple reconciling items, some of which are close to a year old. We recommend that the City implement policies requiring all departments to close cash batches timely and correct any issues.

Management's Response: The City agrees with this finding. The City will modify its policy for cash handling to require departments to submit complete, timely, and accurate batches. The policy will also include the requirement that all issues be investigated and resolved within five working days.

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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

Housing Successor Excess Surplus

Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program." We noted that the City has had an excess surplus since 2014 and has not yet encumbered or transferred the funds.

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.



CPAs AND ADVISORS

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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
December 15, 2017