

# Agenda Report

April 24, 2023

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

**THROUGH:** Finance/Audit Committee

**FROM:** Department of Finance

**SUBJECT: FISCAL YEAR JUNE 30, 2022 ANNUAL FINANCIAL REPORTS**

**RECOMMENDATION:**

It is recommended that the following reports for the year ended June 30, 2022 be reviewed, discussed, and filed by the City Council and/or the Successor Agency to the Pasadena Community Development Commission.

- A. Annual Comprehensive Financial Report
- B. 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* (This replaces what was called the "Management Letter.")
- C. Pasadena Center Operating Company Basic Financial Statements
- D. Rose Bowl Operating Company Basic Financial Statements
- E. Pasadena Community Access Corporation Basic Financial Statements
- F. Pasadena Fire and Police Retirement System Basic Financial Statements
- G. Air Quality Improvement Fund Financial Statements and Compliance Report
- H. Pasadena Housing Successor Basic Financial Statements
- I. Foothill Workforce Development Board Basic Financial Statements
- J. Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit (Gann Limit)
- K. Independent Accountants' Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program
- L. The Auditors' Communications with the City's Finance/Audit Committee
- M. Single Audit Report

## **EXECUTIVE SUMMARY:**

This action is to receive and file the City's nine (9) annual financial statements and four (4) compliance-related reports for the fiscal year ended June 30, 2022. All financial statements received an unmodified (or clean) opinion. The Single Audit Report reiterates that there were no financial statement findings and reports two grant related findings. The findings were related to the timely filing of the consolidated annual performance and evaluation report and the missing verification of suspension and debarment of a vendor. There were three instances of deficiencies in internal controls identified in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the Rose Bowl Operating Company (RBOC) audit and the Pasadena Community Access Corporation (PCAC) audit. The audit for the RBOC identified two deficiencies in internal controls, one was a material weakness and one significant deficiency. The audit for the PCAC identified one material weakness in internal control. Management for the RBOC and PCAC have acknowledged the findings and incorporated processes to ensure these deficiencies are corrected. A presentation will be made by the City's Finance Department and external auditors, CliftonLarsonAllen LLP, at the April 24, 2023, Finance/Audit Committee and City Council meeting.

## **BACKGROUND:**

This year's audit was the third annual audit performed by CliftonLarsonAllen LLP, who was awarded a three-year contract with two one-year optional extensions on June 1, 2020, to perform the City's audits. On June 1, 2020, City Council approved the contract with White Nelson Diehl Evans, LLP (WNDE) that required sampling be performed with samples from all funds. On November 1, 2020, WNDE merged with CliftonLarsonAllen LLP, a national firm. There was no change in the terms of the engagement or in partner and staff assigned to the City's audit and the audit progressed without interruption. The audit was conducted in a hybrid manner, that is performed on-site and in a remote setting. The remote audit was facilitated by the City's use of Tyler Munis and the electronic storage of documents.

All nine (9) financial statements received unmodified opinions from the external 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..." The four (4) remaining reports present compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

## **Annual Comprehensive Financial Report (ACFR) (Attachment A)**

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 ACFR for the year ending June 30, 2022, the City received an unmodified opinion, which means that the statements are free of material misstatement and are presented in conformity with generally accepted accounting principles (GAAP).

## **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* (This replaces what was called the "Management Letter") (Attachment B)**

This report explains the auditors' audit of the City's financial reports in relation to their review of internal controls and reports no findings. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot-checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have samples pulled from every fund, which is more than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control," "material weakness," and "significant deficiency" involving the internal control structure. This year's financial statement audit identified no material weaknesses and no significant deficiencies.

## **Component Unit Financial Statements**

Financial statements for the Pasadena Center Operating Company (Attachment C), Rose Bowl Operating Company (Attachment D), Pasadena Community Access Corporation (Attachment E), and Pasadena Fire and Police Retirement System (Attachment F) 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 unmodified opinion.

The Pasadena Fire and Police Retirement System financial statements were audited by another firm, Macias Gini and O'Connell (MGO).

### **Air Quality Improvement Fund Financial and Compliance Report (Attachment G)**

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. The Air Quality Improvement Fund Financial and Compliance Report received an unmodified opinion.

### **Pasadena Housing Successor Basic Financial Statements and Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Regarding the Low- and Moderate-Income Housing Asset Fund (Attachment H)**

Since fiscal year 2016, the Pasadena Housing Successor Fund has been presented as a major fund with the major governmental funds in the ACFR. This facilitates meeting the state's required reporting and auditing requirements for this fund. To meet the reporting requirements, the draft of the Housing Successor Financial Statements and the draft Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance were submitted to the California Department of Housing and Community Development on December 30, 2022. The final version of the Housing Successor Financial Statements, the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters regarding the Low-and Moderate-Income Housing Asset Fund, will be delivered to the Mayor and City Council members on April 24, 2023, and posted on the City's website. The final version of the reports will also be submitted to the California Department of Housing and Community Development as well as the Housing Successor governing body. The auditors opined that the Housing Successor has complied in all material respects with the compliance requirements they must report on and they did not identify any noncompliance with the California Health and Safety Code requirements.

### **Foothill Workforce Development Board Basic Financial Statements and Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Attachment I)**

The City serves as the lead agency for this Joint Powers Authority. The Foothill Workforce Development Board Financial Statements, received an unmodified opinion. The auditors also opined that the Foothill Workforce Development Board has complied in all material respects with the compliance requirements they must report on.

### **Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheet No. 6 (Attachment J)**

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 perform "Agreed-Upon Procedures" where they recalculate the Gann Limit. They determined that the current year calculation is correct and found no exceptions.

### **Independent Accountants' Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Attachment K)**

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 Great West Retirement Services. There were no exceptions noted as a result of the procedures.

### **The Auditors' Communications with the City's Audit and Finance Committees (Attachment L)**

One auditing pronouncement, Statement of Auditing Standards (SAS) No. 114, requires defined 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 explain their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit and no disagreements occurred with management. They point out whether management has corrected or passed on correcting all known misstatements.

### **Single Audit Reports on Federal Awards (Attachment M)**

The Single Audit Act establishes uniform audit requirements for local governments expending federal awards greater than \$750,000 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. The Single Audit Report for Fiscal Year ended 2022, contains two reports and three schedules. The Single Audit Report reiterated that there were no financial statement findings; however, reported two grant related findings. The findings were related to the untimely filing of the consolidated annual performance and evaluation report and the missing verification of suspension and debarment of a vendor.

**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.

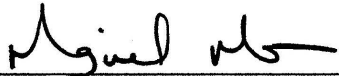
**FISCAL IMPACT:**

There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

  
MATTHEW E. HAWKESWORTH  
Director of Finance

Approved by:

  
MIGUEL MARQUEZ  
City Manager

Attachments: (13)

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